

VERMILLION, INC.  
Form 10-Q  
May 20, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**  
For the quarterly period ended September 30, 2009.

OR

**Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-31617

**Vermillion, Inc.**

(Debtor-in-Possession)

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**33-0595156**  
(I.R.S. Employer  
Identification No.)

**47350 Fremont Blvd., Fremont, California**  
(Address of principal executive offices)

**94538**  
(Zip Code)

**Registrant's telephone number, including area code: (510) 226-2800**

**Former name, former address and former fiscal year, if changed since last report: Not applicable**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of March 31, 2010, the Registrant had 10,298,696 shares of common stock, par value \$0.001 per share, outstanding.

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**Vermillion, Inc.**

**(Debtor-in-Possession)**

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*Vermillion, OVA1, and OvaCalc* are trademarks of Vermillion, Inc. *ProteinChip* is a registered trademark of Bio-Rad Laboratories, Inc. *BioSeptra* is a registered trademark of Pall Corporation.

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Vermillion, Inc.****(Debtor-in-Possession)****Consolidated Balance Sheets****(Amounts in Thousands, Except Share and Par Value Amounts)****(Unaudited)**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,460	\$ 2,464
Accounts receivable		31
Prepaid expenses and other current assets	335	326
Total current assets	1,795	2,821
Property, plant and equipment, net	341	611
Long-term investments, at fair value	464	341
Other assets		85
Total assets	\$ 2,600	\$ 3,858
<b>Liabilities and Stockholders Deficit</b>		
Current liabilities:		
Accounts payable	\$ 985	\$ 1,676
Accrued liabilities	1,457	2,372
Current portion of convertible senior notes, net of discount		2,500
Total current liabilities	2,442	6,548
Long-term debt owed to related party	10,000	10,000
Convertible senior notes, net of discount		16,378
Warrant liability	7,410	
Liabilities subject to compromise	23,668	
Total liabilities	43,520	32,926
Commitments and contingencies (see Note 6)		
Stockholders' deficit:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, none issued and outstanding at September 30, 2009 and December 31, 2008, respectively		
Common stock, \$0.001 par value, 150,000,000 shares authorized at September 30, 2009 and December 31, 2008; 6,853,230 and 6,383,916 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	7	6
Additional paid-in capital	232,229	228,560
Accumulated deficit	(273,050)	(257,472)
Accumulated other comprehensive loss	(106)	(162)

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Total stockholders' deficit	(40,920)	(29,068)
Total liabilities and stockholders' deficit	\$ 2,600	\$ 3,858

See accompanying notes to the consolidated financial statements.

**Table of Contents****Vermillion, Inc.****(Debtor-in-Possession)****Consolidated Statements of Operations****(Amounts in Thousands, Except Share and Per Share Amounts)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,					
	2009	2008	2009	2008				
<b>Revenue:</b>								
Products	\$	\$	5	\$	\$	10		
Services			66			114		
Total revenue			71			124		
<b>Cost of revenue:</b>								
Products			2			4		
Services						20		
Total cost of revenue			2			24		
Gross profit			69			100		
<b>Operating expenses:</b>								
Research and development		382	1,135		1,515	4,262		
Sales and marketing		7	388		420	1,784		
General and administrative		303	1,581		1,928	5,062		
Total operating expenses		692	3,104		3,863	11,108		
Loss from operations		(692)	(3,035)		(3,863)	(11,008)		
Interest income		6	79		21	360		
Interest expense		(434)	(508)		(1,375)	(1,561)		
Realized loss on investments			(1,124)			(1,748)		
Change in fair value and gain from exercise of warrants		(9,494)			(9,473)			
Reorganization items		(398)			(935)			
Other income (expense), net		(3)	(142)		13	(128)		
Loss before income taxes		(11,015)	(4,730)		(15,612)	(14,085)		
Income tax benefit (expense)			(14)		(11)	34		
Net loss	\$	(11,015)	\$	(4,744)	\$	(15,623)	\$	(14,051)
Loss per share - basic and diluted	\$	(1.72)	\$	(0.74)	\$	(2.45)	\$	(2.20)
<b>Weighted average common shares used to compute basic and diluted net loss per common share</b>								
		6,394,119		6,382,166		6,387,354		6,381,290

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See accompanying notes to the consolidated financial statements.

**Table of Contents****Vermillion, Inc.****(Debtor-in-Possession)****Consolidated Statements of Changes in Stockholders Deficit and Comprehensive Loss****(Amounts in Thousands, Except Share Amounts)****(Unaudited)**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Deficit	Comprehensive Loss
	Shares	Amount					
Balance at December 31, 2007	6,380,197	\$ 6	\$ 227,895	\$ (239,142)	\$ (221)	\$ (11,462)	
Net loss				(14,051)		(14,051)	\$ (14,051)
Change in unrealized loss on available-for-sale securities					98	98	98
Foreign currency translation adjustment					43	43	43
<b>Comprehensive loss</b>							<b>\$ (13,910)</b>
Registration costs adjustment related to private placement offering			26			26	
Payment for fractional shares related to 1 for 10 reverse stock split	(31)						
Common stock shares issued in connection with employee stock purchase plan	2,000		2			2	
Stock compensation charge			479			479	
Balance at September 30, 2008	6,382,166	\$ 6	\$ 228,402	\$ (253,193)	\$ (80)	\$ (24,865)	
Balance at December 31, 2008	6,383,916	\$ 6	\$ 228,560	\$ (257,472)	\$ (162)	\$ (29,068)	
Net loss				(15,623)		(15,623)	\$ (15,623)
Change in unrealized loss on available-for-sale securities					123	123	123
Foreign currency translation adjustment					(1)	(1)	(1)
<b>Comprehensive loss</b>							<b>\$ (15,501)</b>
Cumulative effect of a change in accounting principle to reclassify certain warrants to warrant liability				(21)		(21)	
Cumulative effect adjustment to reclassify a portion of previously recognized other-than-temporary impairment of auction rate securities				66	(66)		
Warrant exercises	469,314	1	3,324			3,325	
Stock compensation charge			345			345	
Balance at September 30, 2009	6,853,230	\$ 7	\$ 232,229	\$ (273,050)	\$ (106)	\$ (40,920)	



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See accompanying notes to the consolidated financial statements.

**Table of Contents****Vermillion, Inc.****(Debtor-in-Possession)****Consolidated Statements of Cash Flows****(Amounts in Thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (15,623)	\$ (14,051)
Adjustments to reconcile net loss to net cash used in operating activities:		
Charge on impairment of investments		1,748
Change in warrant value and gain from warrant exercise	9,473	
Loss (gain) on sale and disposal of property and equipment	(2)	343
Depreciation and amortization	270	796
Stock-based compensation expense	345	479
Amortization of debt discount	45	166
Amortization of debt issuance costs	9	49
Write-off of debt issuance costs and discounts related to debt subject to compromise	93	
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	31	(12)
Decrease in prepaid expenses and other current assets	11	250
Decrease in other assets		555
Increase (decrease) in accounts payable and accrued liabilities	3,028	(3,335)
Decrease in deferred revenue		(27)
Decrease in other liabilities		(278)
<b>Net cash used in operating activities</b>	<b>(2,320)</b>	<b>(13,317)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments		11,675
Purchases of investments		(4,100)
Purchase of certificate of deposit pledged as collateral on letter of credit		(100)
Proceeds from sale of property and equipment	2	94
Purchase of property, plant and equipment		(37)
Proceeds from maturity of certificate of deposit pledged as collateral on letter of credit	40	
<b>Net cash provided by investing activities</b>	<b>42</b>	<b>7,532</b>
<b>Cash flows from financing activities:</b>		
Proceeds from stock warrant exercises, net	1,275	
Proceeds from purchase of common stock by employee stock purchase plan		2
<b>Net cash provided by financing activities</b>	<b>1,275</b>	<b>2</b>
Effect of exchange rate changes on cash and cash equivalents	(1)	43
<b>Net decrease in cash and cash equivalents</b>	<b>(1,004)</b>	<b>(5,740)</b>
Cash and cash equivalents, beginning of period	2,464	7,617

Cash and cash equivalents, end of period	1,460	1,877
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**Supplemental disclosure of cash flow information:**

Cash paid during the period for:

Interest	\$ 67	\$ 1,734
Income taxes	10	35

Noncash investing and financing activities:

Unrealized gain on investments	\$ (123)	\$
Cumulative effect of change in accounting principle - warrant liability	(21)	
Cumulative effect of change in accounting principle - unrealized loss on investments	66	
Issuance of common stock from warrant exercise	2,050	
Registration costs adjustment related to private placement offering of common stock and warrants		26

See accompanying notes to the consolidated financial statements.

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**Vermillion, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. Organization, Basis of Presentation and Summary of Significant Accounting and Reporting Policies**

***Organization***

Vermillion, Inc. ( Vermillion ; Vermillion and its wholly-owned subsidiaries are collectively referred to as the Company ) is incorporated in the state of Delaware, and is engaged in the business of discovering, developing and commercializing diagnostics tests in the fields of oncology, hematology, cardiology and women s health. On March 9, 2010, the Company commercially launched OVA1 ovarian tumor triage test (the OVA1 Test ).

***Liquidity***

The Company has incurred significant net losses and negative cash flows from operations since inception. At September 30, 2009, the Company had an accumulated deficit of \$273,050,000. On November 13, 2006, the Company completed the sale of assets and liabilities of the Company s protein research products and collaborative services business (the Instrument Business Sale ) to Bio-Rad Laboratories, Inc. ( Bio-Rad ). On March 30, 2009, the Company filed a voluntary petition for relief (the Bankruptcy Filing ) under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court ). On January 7, 2010, in connection with the Second Amended Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code ( Plan of Reorganization ), Vermillion completed a private placement sale of 2,327,869 shares of its common stock to a group of new and existing investors for \$43,050,000 in gross proceeds. Subsequently on January 22, 2010, the confirmation order issued by the Bankruptcy Court for approving the Company s Plan of Reorganization became final and all conditions precedent to January 22, 2010 were satisfied or waived. Accordingly, the Company emerged from bankruptcy under Chapter 11 (see Note 2). On March 9, 2010, the Company commercially launched the OVA1 Test. Due to the Instrument Business Sale and recent commercial launch of the OVA1 Test, the Company will have limited revenues until additional diagnostic tests are developed or the Company continues to successfully commercialize the OVA1 Test.

To become profitable in the near future, the Company may need to complete development of additional key diagnostic tests, obtain the United States Food and Drug Administration (the FDA ) approval and successfully commercialize those products in addition to the OVA1 Test. The Company s ability to continue to meet its obligations and to achieve its business objectives is dependent upon, among other things, raising additional capital or generating sufficient revenue in excess of costs. The Company may seek to raise additional funding from various possible sources, including the public equity market, private financings, sales of assets, collaborative arrangements and debt. If Vermillion raises additional capital through the issuance of equity securities or securities convertible into equity, stockholders will experience dilution, and such securities may have rights, preferences or privileges senior to those of the holders of Vermillion s common stock or convertible senior notes. If the Company raises additional funds by issuing debt, the Company may be subject to limitations on its operations, through debt covenants or other restrictions. If the Company obtains additional funds through arrangements with collaborators or strategic partners, the Company may be required to relinquish its rights to certain technologies or products that it might otherwise seek to retain.

There can be no assurance that the Company will be able to obtain such financing, or obtain it on acceptable terms. If the Company is unable to obtain financing on acceptable terms it may be unable to execute its business plan, the Company could be required to reduce the scope of or eliminate its sales and marketing and research and development activities or not be able to pay its convertible senior notes.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.



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**Vermillion, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

The unaudited consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim unaudited consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal year. The consolidated balance sheet at December 31, 2008, has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on May 20, 2010.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, and reflect the elimination of intercompany accounts and transactions.

***Use of Estimates in Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated results.

***Significant Accounting Policies***

The Company's significant accounting policies are disclosed in its Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on May 20, 2010, and have not changed significantly as of May 20, 2010.

**2. Chapter 11 Bankruptcy**

On March 30, 2009, the Company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. The Company continues to operate its business and manage its properties as debtors in possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

***Financial Statement Presentation***

The accompanying consolidated financial statements have been prepared in accordance with Accounting Standards Codification ("ASC") 852, Reorganization (ASC 852), and on a going-concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Company's bankruptcy filing, such realization of assets and liquidation of liabilities is subject to uncertainty. While operating as debtors in possession under the protection of Chapter 11 of the Section 365 of the United States Bankruptcy Code (the "Bankruptcy Code"), all or some of the debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements, subject to Bankruptcy Court approval or as otherwise permitted in the ordinary course of business. Further, the Company's plan of reorganization could materially change the amounts and classification of items reported in the Company's historical consolidated financial statements.

Substantially all of the Company's pre-petition debt is now in default due to the bankruptcy filing. As described below, the accompanying consolidated financial statements present the Company's pre-petition 4.50% Convertible Senior Notes due 2009 (the "4.50% Notes") and 7.00% Convertible Senior Notes due 2011 (the "7.00% Notes") totaling of \$19,000,000 as liabilities subject to compromise. See Note 12, "Subsequent Events," in the accompanying notes to consolidated financial statements for additional information.

**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)*****Liabilities Subject to Compromise***

As required by ASC 852, the Company has recorded liability amounts for the claims that can be reasonably estimated and believe are probable of being allowed by the Bankruptcy Court. Such claims are subject to future adjustments that may result from, among other things, negotiations with creditors, and rejection of executory contracts and unexpired leases. Liabilities subject to compromise may change due to reclassifications, settlements or reorganization activities that give rise to new claims or increases in existing claims.

Liabilities subject to compromise in the consolidated balance sheet consisted of the following at September 30, 2009 (in thousands):

Accounts payable	\$ 2,241
Accrued liabilities	1,683
Payroll and benefits related expenses	744
Convertible senior notes	19,000
<b>Total liabilities subject to compromise</b>	<b>\$ 23,668</b>

***Reorganization Items***

Professional advisory fees and other costs directly associated with the Company's reorganization are reported separately as reorganization items pursuant to ASC 852. Professional fees include legal fees undertaken as part of the reorganization process. The write-off of debt issuance costs and discounts related to debt generally represent one-time charges. Certain actions within the non-debtor companies have occurred as a result of the Company's bankruptcy proceedings. The costs associated with these actions are also reported as reorganization items. The reorganization items in the consolidated statement of operations for the three and nine months ended September 30, 2009 consisted of the following items (in thousands):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Debtors reorganization items		
Professional fees associated with bankruptcy proceedings	\$ 238	\$ 610
Write-off of debt issuance costs and discounts related to debt subject to compromise		93
DIP Financing fees	107	159
<b>Debtors reorganization items</b>	<b>\$ 345</b>	<b>\$ 862</b>
Non-Debtors reorganization items		
Professional fees associated with bankruptcy proceedings	\$ 53	\$ 73
<b>Total reorganization items</b>	<b>\$ 398</b>	<b>\$ 935</b>

**3. Recent Accounting Pronouncements**

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In June 2009, ASC 105 Generally Accepted Accounting Principles ( ASC 105 ) was issued. ASC 105 became the single official source of authoritative, nongovernmental generally accepted accounting principles in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the SEC. The Company's accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the footnotes to the Company's consolidated financial statements have been changed to refer to the appropriate section of ASC.



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**Vermillion, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

In April 2009, FASB issued ASC 825 Financial Instruments ( ASC 825 ) and ASC 270 Interim Reporting ( ASC 270 ). ASC 825 and ASC 270 requires the Company to disclose on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the consolidated balance sheets at fair value. ASC 825 and ASC 270 are effective for interim periods ending after June 15, 2009. The Company has adopted the provisions of ASC 825 and ASC 270 effective the first quarter of fiscal 2009 (see Note 4 and Note 5). The adoption this guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, FASB issued ASC 320 Investments Debt and Equity Securities ( ASC 320 ). ASC 320 modifies the other-than-temporary impairment guidance for debt securities through increased consistency in the timing of impairment recognition and enhanced disclosures related to the credit and noncredit components of impaired debt securities that are not expected to be sold. In addition, increased disclosures are required for both debt and equity securities regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. ASC 320 is effective for interim and annual reporting periods that end after June 15, 2009, and early adoption is permitted. The Company has adopted the provisions of ASC 320 on January 1, 2009. The Company has considered the guidance provided by ASC 320 in the Company's determination of impairment, and have determined that the impact was not material (see Note 5).

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): *Multiple Deliverable Revenue Arrangements A Consensus of the FASB Emerging Issues Task Force* . This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The Company has not determined the impact that this update may have on the Company's consolidated financial statements.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect adoption of the updated guidance to have a material impact on its consolidated results of operations or financial condition.

**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****4. Fair Value Measurement and Marketable Securities**

The Company invests in money market funds and auction rate securities. The following is a summary of available-for-sale securities at September 30, 2009 and December 31, 2008 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
<b>September 30, 2009:</b>				
Money market funds	\$ 2	\$	\$	\$ 2
Long term investments in auction rate securities	407	57		464
	\$ 409	\$ 57	\$	\$ 466
<b>December 31, 2008:</b>				
Money market funds	\$ 9	\$	\$	\$ 9
Long term investments in auction rate securities	341			341
	\$ 350	\$	\$	\$ 350

The scheduled contractual maturity dates for available-for-sale long-term investments at September 30, 2009, are as follows (in thousands):

	Within 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total
<b>Long-term investments:</b>					
Auction rate securities	\$	\$	\$ 464	\$	\$ 464

As of September 30, 2009, financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above was as follows (in thousands):

Total Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in		
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

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<b>Assets:</b>								
Money market funds	\$	2	\$	2	\$		\$	
Long term investments in auction rate securities		464						464
Total	\$	466	\$	2	\$		\$	464

The Company's Level 1 financial assets are money market funds.

**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)**

At September 30, 2009, long-term investments available-for-sale measured at fair value using Level 3 inputs consisted of \$464,000 invested in auction rate securities. The continued failure of auctions and the lack of market activity and liquidity required that these securities be measured using Level 3 inputs. As of September 30, 2009 and December 31, 2008, the Company's auction rate securities in credit linked notes were valued using a single factor Gaussian copula model and market bids received from Deutsche Bank. The valuation of the Company's investment in auction rate securities is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, liquidity and ongoing strength, and quality of credit markets. If the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, the Company may be required to record additional impairment charges in future quarters. The Company will continue to monitor the value of its auction rate securities and consider the impact, if any, on the fair value of its investment in auction rate securities.

The Company's financial assets measured at fair value on a recurring basis using significant Level 3 inputs as of September 30, 2009, consisted solely of auction rate securities. The reconciliation of financial assets measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2009, were as follows (in thousands):

	<b>Long-Term Investments Available- for- Sale Auction Rate Securities (Level 3)</b>	
	<b>Three Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2009</b>
Balance at beginning of period	\$ 403	\$ 341
Total realized losses included in earnings		
Change in unrealized gain(loss) included in other comprehensive loss	61	123
Balance at end of period	\$ 464	\$ 464

The Company measures certain common stock warrants at fair value on recurring basis (see Note 9). All other financial assets and liabilities are measured at fair value on a nonrecurring basis. These financial assets and liabilities are recognized at fair value when they are deemed to be other-than-temporarily impaired.

**5. Secured Line of Credit with Quest Diagnostics Incorporated ( Quest )**

On July 22, 2005, in connection with the Strategic Alliance Agreement, Quest provided the Company with a \$10,000,000 secured line of credit, which is collateralized by certain of Vermillion's intellectual property and may only be used for payment of certain costs and expenses directly related to the Strategic Alliance. Under the terms of this secured line of credit, the interest rate is at the prime rate plus 0.5% (prime rate was 3.25% at September 30, 2009) and is payable monthly. Upon default on any principal or interest payment, the interest rate is increased to prime plus 2.0%. This secured line of credit also contains provisions for Quest to forgive portions of the amounts borrowed that corresponds to Vermillion's achievement of certain milestones related to development, regulatory approval and commercialization of certain diagnostic tests. The amounts to be forgiven and the corresponding milestones that Vermillion must achieve are (i) \$1,000,000 for each application that allows a licensed laboratory test to be commercialized with a maximum of three applications for \$3,000,000; (ii) \$3,000,000 for the earlier of FDA clearance of the first diagnostic test kit or commercialization of the first diagnostic test kit; and (iii) \$2,000,000 upon each FDA clearance of up

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to two subsequent diagnostic test kits but no later than the first commercialization of each such diagnostic test kit, with a maximum forgiveness of \$4,000,000 for two diagnostic test kits. As amended on October 7, 2009, in the event Vermillion fails to achieve these certain milestones, the principal amount outstanding related to each milestone not achieved and any unpaid interest of this secured line of credit will become due and payable on October 7, 2012.

On September 11, 2009, the Company achieved the FDA clearance of the OVA1 Test milestone provision in the secured line of credit agreement providing for a reduction in the principal amount of the loan of \$3,000,000 but was only able to apply the milestone once it was no longer in default under the terms of the secured line of credit while under Chapter 11 bankruptcy protection. The Company cured the default upon payment of accrued interest on January 22, 2010 totaling approximately \$472,000. On January 23, 2010, the principal was reduced to \$7,000,000. The Company is in discussions with Quest regarding the achievement of an additional \$1,000,000 forgiveness milestone as a result of the FDA approval of the OVA1 Test under the terms of the Strategic Alliance Agreement.

**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****6. Commitments and Contingent Liabilities*****Noncancelable Collaboration Obligations and Other Commitments***

Under the terms of a research collaboration agreement with The John Hopkins University School of Medicine ( JHU ), directed at the discovery and validation of biomarkers in human subjects, including but not limited to clinical application of biomarkers in the understanding, diagnosis and management of human diseases, Vermillion is required to pay noncancelable contributions of \$600,000, \$618,000 and \$637,000 for the years ending December 31, 2008, 2009 and 2010, respectively. As of September 30, 2009 and December 31, 2008, Vermillion owed \$712,000 and \$300,000, respectively, related to the research collaboration agreement with JHU. Collaboration costs under the JHU collaboration, which are included in research and development expenses, were \$154,000 and \$462,000 for the three and nine months ended September 30, 2009, respectively. Collaboration costs under the JHU collaboration, were \$150,000 and \$450,000 for the three and nine months ended September 30, 2008, respectively.

On June 1, 2007, Vermillion entered into a non-exclusive license agreement with the National Cardiovascular Center ( NCVC ), an entity organized and existing under the laws of Japan. Under this agreement, Vermillion obtained a ten year worldwide non-exclusive license with the right to extend the term for the life of the licensed patent, which includes a United States Patent Application, a Japan Patent and a Patent Cooperation Treaty ( PCT ) Application, for technology used in Vermillion 's TTP diagnostic test kit that is under development. Under this agreement, Vermillion will pay NCVC a non-refundable license fee of \$50,000. The payment terms are \$20,000 upon execution of this agreement, \$10,000 upon submission of an in vitro diagnostic test to the FDA for clearance, \$10,000 upon the first commercial sale of such in vitro diagnostic test kit and \$10,000 upon achievement of \$500,000 in net sales of such in vitro diagnostic test kits. Additionally, Vermillion will pay royalties to NCVC for net sales to customers located in the United States, Japan, Europe and China. On July 18, 2007, Vermillion made a payment of \$20,000 related to the execution of this agreement. There have been no subsequent payments made through September 30, 2009.

***Contingent Liabilities******Molecular Analytical Systems, Inc. Litigation***

On September 17, 2007, Molecular Analytical Systems ( MAS ) filed a lawsuit in the Superior Court of California for the County of Santa Clara naming Vermillion and Bio-Rad as defendants (the State Court lawsuit ). Under the State Court lawsuit, MAS seeks an unspecified amount of damages and alleges, among other things, that Vermillion is in breach of its license agreement with MAS relating to SELDI technology as a result of Vermillion 's entry into a sublicense agreement with Bio-Rad. Vermillion filed its general denial and affirmative defense on April 1, 2008. The Company and Bio-Rad thereafter moved to compel arbitration of the State Court lawsuit, which motion was denied in the trial court. Thereafter, the Company appealed the denial of the motion to compel arbitration, which appeal had the effect of staying the State Court lawsuit, which stay was further extended in both the state trial and appellate courts when the Company filed on March 30, 2009, a Voluntary Petition for Relief under Chapter 11 in the United States Bankruptcy Court for the District of Delaware. MAS filed a proof of claim on June 30, 2009, in connection with the Company 's Chapter 11 bankruptcy proceedings. The proof of claim mirrored the MAS lawsuit and asserted that the Company breached the Exclusive License Agreement by transferring certain technologies to Bio-Rad without obtaining MAS 's consent. MAS listed the value of its claim as in excess of \$5,000,000. On December 28, 2009, the Company objected to MAS 's Proof of Claim in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court confirmed the Company 's plan of reorganization. Per the Court 's order confirming the plan, the Company 's bankruptcy case will be closed after a final, non-appealable judgment is entered on MAS 's claims. After the plan was confirmed, MAS filed a motion with the Bankruptcy Court asking it to abstain from hearing its proof of claim and asked the Bankruptcy Court to grant relief from stay so that MAS could proceed with the State Court lawsuit in California. The Bankruptcy Court granted that motion on March 15, 2010. Thereafter, the California Court of Appeal has set oral argument on the Company 's appeal of the trial court order denying the Company 's motion to compel arbitration for June 17, 2010. Management cannot predict the ultimate outcome of this matter at this time.

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**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)***Health Discovery Corporate Litigation*

On June 26, 2006, Health Discovery Corporation (HDC) filed a lawsuit against Vermillion in the United States District Court for the Eastern District of Texas, Marshall Division (the Court), claiming that software used in certain Vermillion ProteinChip Systems infringes on three of its United States patents. HDC sought injunctive relief as well as unspecified compensatory and enhanced damages, reasonable attorney's fees, prejudgment interest and other costs. On August 1, 2006, Vermillion filed an unopposed motion with the Court to extend the deadline for Vermillion to answer or otherwise respond until September 2, 2006. Vermillion filed its answer and counterclaim to the complaint with the Court on September 1, 2006. Concurrent with its answer and counterclaims, Vermillion filed a motion to transfer the case to the Northern District of California. On January 10, 2007, the Court granted Vermillion's motion to transfer the case to the Northern District of California. The parties met for a scheduled mediation on May 7, 2007. On July 10, 2007, Vermillion entered into a license and settlement agreement with HDC (the HDC Agreement) pursuant to which it licensed more than 25 patents covering HDC's support vector machine technology for use with SELDI technology. Under the terms of the HDC Agreement, Vermillion receives a worldwide, royalty-free, non-exclusive license for life sciences and diagnostic applications of the technology and it has access to any future patents resulting from the underlying intellectual property in conjunction with use of SELDI systems. Pursuant to the HDC Agreement, Vermillion paid to HDC \$200,000 upon entry into the agreement on July 13, 2007, \$100,000 three months following the date of the agreement on October 9, 2007, and \$150,000 twelve months following the date of the agreement on July 9, 2008. The remaining \$150,000 under the HDC Agreement is payable twenty-four months following the date of the agreement on July 10, 2009. The Company paid the remaining \$150,000 upon exiting Chapter 11 bankruptcy in January 2010. The total settlement of \$600,000 was expensed for the year ended December 31, 2007. The HDC Agreement settled all disputes between Vermillion and HDC.

*Bio-Rad Laboratories, Inc. Matters*

On November 13, 2006, the Company completed the Instrument Business Sale to Bio-Rad. The Instrument Business Sale to Bio-Rad included the Company's Surfaced Enhanced Laser Desorption/Ionization (SELDI) technology, ProteinChip arrays and accompanying software. Pursuant to the terms of the sales agreement entered into with Bio-Rad, the total sales price was \$20,000,000, of which \$16,000,000 was paid by Bio-Rad to the Company at the closing of the transaction on November 13, 2006. A total of \$4,000,000 was held back from the sales proceeds contingent upon the Company meeting certain obligations, which \$2,000,000 was subsequently paid to the Company in fiscal 2007 upon the issuance by the United States Patent and Trademark Office a reexamination certificate for United States Patent No. 6,734,022. From the amounts held back, \$2,000,000, subject to certain adjustments, is being held in escrow to serve as security for the Company to fulfill certain obligations.

In connection with the Instrument Business Sale, the Company entered into a letter agreement with Bio-Rad pursuant to which the Company agreed to indemnify Bio-Rad and its subsidiaries with respect to certain payments made by Bio-Rad in connection with the termination of employees of its former subsidiary in the United Kingdom in the six-month period immediately following the Instrument Business Sale. On May 4, 2007, Bio-Rad delivered a claim for indemnification under the agreement for \$307,000, which was paid out of \$2,000,000 held in escrow. In August 2009, Bio-Rad also filed a proof of claim in the bankruptcy case for indemnification of the MAS lawsuit. Management is disputing the claim and cannot predict the ultimate outcome of this matter at this time.

In connection with the Instrument Business Sale, the Company also entered into a manufacture and supply agreement with Bio-Rad on November 13, 2006, whereby the Company agreed to purchase ProteinChip Systems and ProteinChip Arrays (collectively, the Research Tools Products) from Bio-Rad. Under the terms of the manufacture and supply agreement, the Company agreed to provide Bio-Rad quarterly, non-binding, twelve-month rolling forecasts setting forth the Company's anticipated needs for Research Tools Products over the forecast period. The Company was permitted to provide revised forecasts as necessary to reflect changes in demand for the products, and Bio-Rad was required to use commercially reasonable efforts to supply amounts in excess of the applicable forecast. Either party was permitted to terminate the agreement for convenience upon 180 days' prior written notice, or upon default if the other party failed to cure such default within 30 days after notice thereof. In a letter from the Company to Bio-Rad dated May 2, 2008, Vermillion exercised its right to terminate the November 13, 2006, manufacture and supply agreement for convenience upon 180 days' written notice. Consequently, termination of the agreement became effective on October 29, 2008. In October 2009, Bio-Rad filed a proof of claim in the Company's bankruptcy case based on certain contract claims for approximately \$1,000,000. The Company is attempting to resolve the contract claims and has accrued for this contingency within general and administrative expense in accordance with ASC 450 *Contingencies* at September 30, 2009 and December 31, 2008. Management cannot predict

the ultimate outcome of this matter at this time.



**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)***Debtor s Incentive Plan*

In connection with the Bankruptcy Filing, on April 21, 2009, the Company filed the Debtor s Motion for Entry of an Order Approving the Debtor s Incentive Plan (the Incentive Plan ) and Authorizing Payments thereunder pursuant to §§ 363(b) and 503(b) of the Bankruptcy Code (the Incentive Plan Motion ) which sought to provide proper incentives to the directors (Gail Page, John Hamilton and James Burns, collectively, the Directors ) to help achieve a successful sale or restructuring of the Company. At a hearing on June 22, 2009, the Court entered an Order approving the Incentive Plan Motion (the Incentive Plan Order ). The Incentive Plan is only triggered upon the occurrence of a qualified transaction defined as the closing of any sale pursuant to section 363 of the Bankruptcy Code or the effectiveness of a Reorganization Plan confirmed pursuant to section 1129 of the Bankruptcy Code. The Incentive Plan payment was based upon a percentage of (A) the gross proceeds of Asset Sales, both prior to and after the FDA approval of the ovarian tumor triage test, and (B) the value of consideration - cash, debt and equity - distributed pursuant to a confirmed Reorganization Plan. In the end, the Incentive Plan Order provided that the Directors would receive: (i) zero, on Qualified Transaction Proceeds of 3,000,000 or less, (ii) 6% on Qualified Transaction Proceeds of \$3,000,001 to \$10,000,000, and (iii) 8% on Qualified Transaction Proceeds of greater than \$10,000,000. While the Incentive Plan Order provided the Company with the authority to make distributions under the Incentive Plan, the Company agreed as part of the Plan of Reorganization to seek final judicial approval of the amounts to be paid pursuant to the Incentive Plan. On April 13, 2010, counsel for the Company, the Official Committee of the Equity Security Holders, and the Directors submitted a proposed settlement to the Bankruptcy Court. On April 14, 2010, after a hearing, an order was issued by the Bankruptcy Court approving the Management Incentive Plan. Under the Management Incentive Plan, the Company was directed to distribute an aggregate of \$5,000,000 in cash and 302,541 shares of restricted stock in Incentive Plan Payments to the Directors. All such restricted stock is to be distributed, with 1/24th of it to vest on each monthly anniversary of the vesting commencement date, June 22, 2009. The total Incentive Plan Payments are to be allocated to Gail Page, James Burns and John Hamilton on a 60%-20%-20% basis, respectively, or as otherwise may be agreed to in writing by the Directors. The contingency was accounted for upon the occurrence of the qualified transaction on January 7, 2010 when the Bankruptcy Courts issued a confirmation order approving the Company s Reorganization Plan. Accordingly, the Company recorded a charge of \$7,485,000 for the three months ended March 31, 2010 and will record additional charges totaling \$4,141,000 through June 2011 as the underlying restricted stock vests.

In addition, from time to time, the Company is involved in legal proceedings and regulatory proceedings arising out of its operations. The Company establishes reserves for specific liabilities in connection with legal actions that it deems to be probable and estimable. Other than as disclosed above, the Company is not currently a party to any proceeding, the adverse outcome of which would have a material adverse effect on the Company s financial position or results of operations.

**7. Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss as of September 30, 2009 and 2008 were as follows (in thousands):

	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Net unrealized gain on long-term investments available-for-sale	\$ 57	\$
Cumulative translation adjustment	(163)	(80)
<b>Accumulated other comprehensive loss</b>	<b>\$ (106)</b>	<b>\$ (80)</b>

**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****8. Stock-Based Compensation***Employee Stock-based Compensation Expense*

No options were granted during the three and nine months ended September 30, 2009. Options for 259,000 shares were granted with an average exercise price of \$2.30 during the three months ended September 30, 2008, and 395,250 shares were granted with a weighted average exercise price of \$2.21 during the nine months ended September 30, 2008. The allocation of employee stock-based compensation expense by functional area for the three and nine months ended September 30, 2009 and 2008, was as follows (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Research and development	\$ 4	\$ 31	\$ 32	\$ 92
Sales and marketing		18	10	78
General and administrative	58	113	222	309
Total	\$ 62	\$ 162	\$ 264	\$ 479

*Non-employee Stock-based Compensation Expense*

Stock-based compensation expense related to stock options granted to non-employees is recognized as the stock options are earned. As part of the bankruptcy case, certain former employees were converted into consultants to Company whereby their existing stock options continued to vest, under the original terms of their stock option grants, as they provided consulting services to the Company. The values attributable to these options are amortized over the service period and the unvested portion of these options was remeasured at each vesting date. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of the services received. The fair value of the stock options granted were revalued at each reporting date using the Black-Scholes valuation model as prescribed by ASC 505, Equity, using the following average assumptions:

	<b>Three Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2009</b>
Dividend yield	%	%
Volatility	85.06%	85.90%
Risk-free interest rate	3.07%	3.17%
Expected lives (years)	8.22	8.35
Weighted average fair value	\$ 11.74	\$ 5.76

The stock-based compensation expense will fluctuate as the fair market value of the common stock fluctuates. In connection with stock options relating to non-employees, the Company recorded non-employee stock-based compensation allocated by functional area for the three and nine months ended September 30, 2009, as follows (in thousands).

**Three and Nine  
Months Ended**

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	September 30, 2009
Research and development	\$ 58
Sales and marketing	5
General and administrative	18
Total	\$ 81

**9. Common Stock**

*Common Stock Warrants*

In June 2008, the FASB issued new guidance now codified in ASC 815 that clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify for classification as liabilities. The new guidance in ASC 815 was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of the new guidance on January 1, 2009, resulted in the reclassification of certain of the Company's outstanding common stock warrants from stockholders' deficit to liabilities, which requires the common stock warrants to be fair valued at each reporting period, with the changes in fair value recognized as interest and other expense in the Company's consolidated statement of operations.

**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)**

At September 30, 2009 and January 1, 2009, the Company had warrants outstanding to purchase 862,179 shares of common stock and 2,053,147 shares of common stock, respectively, accounted for in accordance with ASC 815. The fair value of these common stock warrants on the date of adoption of January 1, 2009 and on September 30, 2009 was determined using a Black Scholes valuation model with the following Level 3 inputs:

	September 30, 2009	January 1, 2009
Dividend yield	%	%
Volatility	87.28%	83.39%
Risk-free interest rate	1.41%	1.18%
Expected lives (years)	2.92	3.66
Fair value	\$ 8.59	\$ 0.01

On January 1, 2009, the Company recorded a cumulative effect of change in accounting principle adjustment of \$21,000 to its accumulated deficit and a corresponding reclassification of the Company's outstanding common stock warrants from stockholder's deficit to warrant liability. For the three and nine months ended September 30, 2009, expenses relating to changes in fair value of the common stock warrants liabilities totaled \$15,170,000 and \$15,149,000. As a result of warrant exercise, the Company recognized a gain of \$5,676,000 for the three and nine months ended September 30, 2009. The following table is a reconciliation of the warrant liability measured at fair value using Level 3 inputs for the three and nine months ended September 30, 2009 (in thousands):

	Warrant Liability (Level 3)	
	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Balance at beginning of period	\$	\$
Cumulative effective of change in accounting principle for common stock warrants		21
Change in fair value of common stock warrants	15,170	15,149
Issuance of common stock from warrant exercise	(7,760)	(7,760)
Balance at end of period	\$ 7,410	\$ 7,410

The following table sets forth the Company's financial liabilities, related to common stock warrants issued in the August 29, 2007, Private Placement Sale, subject to fair value measurements as of September 30, 2009:

Total Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in		
	Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

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(Level  
1)

**Liabilities:**

Common stock warrants	\$ 7,410	\$	\$	\$ 7,410
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**Table of Contents****Vermillion, Inc.****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****10. Loss Per Share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Because the Company is in a net loss position, diluted loss per share is calculated using the weighted average number of common shares outstanding and excludes the effects of 2,655,480 and 3,875,535 potential common shares as of September 30, 2009 and 2008, respectively, that are antidilutive. Potential common shares include common shares issuable upon conversion of all convertible senior notes, common stock issuable under the Company's 2000 Employee Stock Purchase Plan, and incremental shares of common stock issuable upon the exercise of outstanding stock options and common stock warrants.

**11. Related Party Transactions*****Consulting Agreement***

On March 26, 2009, the Company entered into a consulting agreement with its former Chief Executive Officer and current Director of the Company. For the three and nine months ended September 30, 2009, the Company incurred \$40,000 and \$95,000, respectively, in general and administrative expenses under the consultant arrangement. At September 30, 2009, the Company owed the consultant \$388,000, which included amounts owed for severance of \$366,000. On February 1, 2010, the Company re-hired the consultant as its Chief Executive Officer of the Company.

**12. Subsequent Events*****Debtor-In-Possession Credit and Security Agreement with Quest***

On October 16, 2009, the Bankruptcy Court gave final approval for Vermillion to enter into a Debtor-In-Possession Credit and Security Agreement (the "DIP Loan Agreement") with Quest and to assume under the Bankruptcy Code the Amended Strategic Alliance Agreement. In connection with the assumption of the Amended Strategic Alliance Agreement, Vermillion also assumed certain other agreements with Quest related to the Amended Strategic Alliance Agreement, including the pre-petition warrants for the purchase of Vermillion's common stock. Under the DIP Loan Agreement, Quest has agreed to provide a debtor-in-possession loan to Vermillion of up to \$1,500,000 (the "DIP Financing"). The DIP Financing is secured by a first lien on substantially all of Vermillion's assets and bears interest at the prime rate plus 0.5% per annum. The DIP Financing matures at the effective date of a plan of reorganization or February 28, 2010, if earlier. Under the Loan Agreement, Vermillion is bound by customary affirmative and negative covenants, including covenants with respect to the use of the funds provided by Quest, and customary events of default - including non-payment, breach of covenants and material breach of the Amended Strategic Alliance Agreement - that may result in acceleration of outstanding amounts, if any, under the DIP Loan Agreement. The Company received \$400,000 under this agreement on October 27, 2009. On January 22, 2010, the Company repaid the \$400,000 and interest of \$4,000. Professional service fees relating to the DIP Loan Agreement were expensed as incurred and classified as reorganization items in the accompanying consolidated statement of operations.

***Plan of Reorganization***

On January 7, 2010, the Bankruptcy Court issued a confirmation order approving the Company's Plan of Reorganization. The Plan of Reorganization contemplates the reorganization of the Company and the discharge of all outstanding claims against and interests in the Company. Pursuant to the Plan of Reorganization, as confirmed, each holder of an allowed priority claim will receive cash in an amount equal to such allowed claim. The secured claim arising from the Quest Credit Agreement and the Patent Security Agreement (the "secured line of credit") was reinstated and unimpaired. Holders of the outstanding 4.50% Notes received the payment of \$2,195,000 of principle, \$140,000 of unpaid interest and 9,044 shares of common stock in exchange of their claims. \$5,000,000 in principal of the outstanding 7.00% Notes were reinstated. Holders of unpaid interest on previously converted 7.00% Notes received \$362,000 in cash and 7,239 shares related to the unpaid interest of the 7.00% Notes. All holders of allowed general unsecured claims elected to receive cash and will be paid in full.



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**Vermillion, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

Subsequently on January 22, 2010, the confirmation order issued by the Bankruptcy Court for approving Vermillion's Plan of Reorganization became final and all conditions precedent to January 22, 2010 were satisfied or waived. Accordingly, the Company emerged from bankruptcy under Chapter 11. Although the Company has emerged out of bankruptcy, the bankruptcy case will remain open until the resolution of the following matters, which includes approval by the Bankruptcy Courts:

Molecular Analytical Systems, Inc. Litigation (see Note 6)

Bio-Rad Laboratories, Inc. Matters (see Note 6)

\$1,000,000 milestone under the Strategic Alliance Agreement with Quest (see Note 5), and

Various pre-petition liability objections

***January 2010 PIPE Financing***

On January 7, 2010, in connection with the Plan of Reorganization, Vermillion completed a private placement sale of 2,327,869 shares of its common stock at a price of \$18.4932 per share to a group of new and existing investors for \$43,050,000 in gross proceeds.

***2010 Stock Option Plan***

On February 8, 2010, the Board of Directors of the Company approved the Vermillion, Inc. 2010 Stock Incentive Plan (the "2010 Plan"). The 2010 Plan will be administered by the Compensation Committee of the Board. The Company's employees, directors, and consultants are eligible to receive awards under the 2010 Plan. The 2010 Plan permits the granting of a variety of awards, including stock options, share appreciation rights, restricted shares, restricted share units, and unrestricted shares, deferred share units, performance and cash-settled awards, and dividend equivalent rights. The Company is authorized to issue up to 1,322,983 shares of common stock, par value \$0.001 per share under the 2010 Plan, subject to adjustment as provided in the 2010 Plan.

***Common Stock Warrant Exercises***

From September 2009 through May 2010, Vermillion issued 922,295 shares of its common stock for total net proceeds of \$3,521,000 from the exercise of its common stock warrants.

***Common Stock Warrants Fair Value***

As of May 13, 2010, the fair value of the outstanding common stock warrants dated August 29, 2007, underlying the warrant liability was \$12.95 per share for a total fair value of \$2,919,000, which is a decrease of \$2,740,000 from the December 31, 2009, total fair value of \$5,659,000.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Forward Looking Statements***

*Vermillion, Inc. ( Vermillion ) and its wholly owned subsidiaries (collectively the Company ) has made statements in this Quarterly Report on Form 10-Q that are deemed forward-looking statements for purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995. The Company claims the protection of such safe harbor, and disclaims any intent or obligation to update any forward-looking statement. You can identify these statements by forward-looking words such as may , will , expect , intend , anticipate , believe , estimate , plan , could , should and continue or similar words. These forward-looking statements may also use different phrases. The Company has based these forward-looking statements on management's ( we , us or our ) current expectations and projections about future events. Examples of forward-looking statements include the following statements:*

*projections of the Company's future revenue, results of operations and financial condition;*

*anticipated efficacy of Vermillion's products and Vermillion's product development activities and product innovations;*

*competition and consolidation in the markets in which the Company competes;*

*existing and future collaborations and partnerships;*

*the utility of biomarker discoveries;*

*our belief that biomarker discoveries may have diagnostic and/or therapeutic utility;*

*our plans to develop and commercialize diagnostic tests through Vermillion's strategic alliance with Quest Diagnostics Incorporated ( Quest );*

*our ability to comply with applicable government regulations;*

*our ability to expand and protect Vermillion's intellectual property portfolio;*

*anticipated future losses;*

*expected levels of expenditures;*

*expected market adoption of our diagnostic tests, including that of the OVA1 ovarian tumor triage test (the OVA1 Test );*

*our ability to obtain reimbursement for our diagnostic tests, including OVA1 Test;*

*forgiveness of the outstanding principal amounts of the secured line of credit by Quest;*

*our ability to relist our common stock on the NASDAQ Global Market or other national securities exchange; and*

*market risk of the Company's investments.*

*These statements are subject to significant risks and uncertainties, including those identified in Part I Item 1A, Risk Factors, that could cause actual results to differ materially from those projected in such forward-looking statements due to various factors, including our ability to generate sales after completing development of new diagnostic products; our ability to manage the Company's operating expenses and cash resources that is consistent with our plans; our ability to secure adequate funds on acceptable terms to execute our business plan; our ability to develop and commercialize diagnostic products using both Vermillion's internal and external research and development resources; our ability to obtain market acceptance of Vermillion's OVA1 Test or future diagnostic products, including the risk that our products will not be competitive with products offered by other companies, or that users will not be entitled to receive adequate reimbursement for our products from third party payers such as private insurance companies and government insurance plans; our ability to successfully license or otherwise successfully partner with third parties to commercialize our products; our ability to obtain any regulatory approval for Vermillion's future diagnostic products; our ability to protect and promote Vermillion's proprietary technologies, and our ability to relist Vermillion's shares on the NASDAQ Global Market or on other national securities exchange. We believe it is important to communicate our expectations to Vermillion's investors. However, there may be events in the future that we are not able to accurately predict or that we do not fully control that could cause actual results to differ materially from those expressed or implied in the Company's forward-looking statements.*

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### *Overview*

Vermillion was originally incorporated in California on December 9, 1993, under the name Abiotic Systems. In March 1995, Abiotic Systems changed its corporate name to CIPHERGEN Biosystems, Inc., and subsequently on June 21, 2000, it reincorporated in Delaware. Under the name CIPHERGEN Biosystems, Inc., Vermillion had its initial public offering on September 28, 2000. On November 13, 2006, the Company sold the assets and liabilities of its protein research products and collaborative services business (the Instrument Business Sale) to Bio-Rad Laboratories, Inc. (Bio-Rad), which allowed Vermillion to focus on the development of its diagnostics tests. On August 21, 2007, CIPHERGEN Biosystems, Inc. changed its corporate name to Vermillion, Inc. Effective at the close of business on March 3, 2008, Vermillion had a 1 for 10 reverse stock split of Vermillion's common stock. Accordingly, all share and per share amounts were adjusted to reflect the impact of the 1 for 10 reverse stock split in this Annual Report on Form 10-Q.

Vermillion is dedicated to the discovery, development and commercialization of novel high-value diagnostic tests that help physicians diagnose, treat and improve outcomes for patients. Vermillion's tests are intended to guide decisions regarding patient treatment, which may include decisions to refer patients to specialists, to perform additional testing, or to assist in the selection of therapy. A distinctive feature of Vermillion's approach is to combine multiple markers into a single, reportable index score that has higher diagnostic accuracy than its constituents.

Management (we, us or our) concentrates its development of novel diagnostic tests in the fields of oncology, hematology, cardiology and women's health, with the initial focus on ovarian cancer. Vermillion also intends to address clinical questions related to early disease detection, treatment response, monitoring of disease progression, prognosis and others through collaborations with leading academic and research institutions such as its strategic alliance agreement with Quest Diagnostic Incorporated (Quest).

Vermillion's lead product is the OVA1 ovarian tumor triage test (the OVA1 Test), which was cleared by the United States Food and Drug Administration (the FDA) on September 11, 2009. The OVA1 Test addresses a clear unmet clinical need, namely the presurgical identification of women who are at high risk of having a malignant ovarian tumor. Numerous studies have documented the benefit of referral of these women to gynecologic oncologists for their initial surgery. Prior to the clearance of the OVA1 Test, no blood test had been cleared by the FDA for physicians to use in the presurgical management of ovarian adnexal masses. The OVA1 Test is a qualitative serum test that utilizes five well established biomarkers and proprietary FDA-cleared software to determine the likelihood of malignancy in women with a pelvic mass for whom surgery is planned. The OVA1 Test was developed through large pre-clinical studies in collaboration with numerous academic medical centers encompassing over 2,500 clinical samples. The OVA1 Test was fully validated in a prospective multi-center clinical trial encompassing 27 sites reflective of the diverse clinical centers at which ovarian adnexal masses are evaluated. The results of the clinical trial demonstrated that the OVA1 Test, in conjunction with clinical evaluation, was able to identify over 90% of the malignant ovarian tumors and to rule out malignancy (negative predictive value, or NPV) with over 90% certainty.

On July 22, 2005, Vermillion and Quest entered into a strategic alliance agreement (the Strategic Alliance Agreement) to develop and commercialize up to three diagnostic tests from Vermillion's product pipeline (the Strategic Alliance). The Strategic Alliance Agreement was set to expire on the earlier of (i) the three-year anniversary of the agreement, which was July 22, 2008, and (ii) the date on which Quest commercializes the three diagnostic tests. On July 21, 2008, Vermillion and Quest amended the Strategic Alliance Agreement to extend the term of the agreement to end on the earlier of (i) September 1, 2008 and (ii) the date on which Quest commercializes the three diagnostic tests. On October 24, 2008, Vermillion and Quest amended the Strategic Alliance Agreement to extend the term of the agreement to end on the earlier of (i) September 1, 2009 and (ii) the date on which Quest makes its third development election. Subsequently on October 7, 2009, Vermillion and Quest amended the Strategic Alliance Agreement (the Strategic Alliance Agreement and the July 21, 2008, October 24, 2008 and October 7, 2009, amendments are collectively referred to as the Amended Strategic Alliance Agreement) to extend the term of the agreement to end on the earlier of (i) October 7, 2012 and (ii) the date on which Quest makes its third development election. To date, Quest has selected only two diagnostic tests, which are the PAD blood test (VASCLIR) and the OVA1 Test, to commercialize. On September 11, 2009, the Company achieved the FDA clearance of the OVA1 Test milestone provision in the secured line of credit agreement providing for a reduction in the principal amount of the loan of \$3,000,000 but was only able to apply the milestone once it was no longer in default under the terms of the secured line of credit while under Chapter 11 bankruptcy protection. The Company cured the default upon payment of accrued interest totaling approximately \$472,000 relating to the \$10,000,000 secured line of credit principal as of January 22, 2010. On January 23, 2010, the principal was reduced to \$7,000,000. The Company is in discussions with Quest regarding the achievement of an additional \$1,000,000 forgiveness milestone as a result of the FDA approval of the OVA1 Test under the terms of the Strategic Alliance Agreement.

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The OVA1 Test was launched on March 9, 2010, by Quest under the terms of its strategic alliance with Vermillion at a list price of \$650 for each OVA1 Test. On March 11, 2010, the Medicare contractor Highmark Medicare Services announced that it would cover the OVA1 Test in its reimbursement program. On May 10, 2010, Quest notified Vermillion that Highmark Medicare Services is adjudicating to Quest the OVA1 claims in the amount of \$516.25 for each OVA1 Test.

In addition to the OVA1 Test, Vermillion has development programs in other clinical aspects of ovarian cancer as well as in peripheral arterial disease ( PAD ). In the field of peripheral arterial disease, Vermillion has identified candidate biomarkers that may help to identify individuals at high risk for a decreased ankle-brachial index score, which is indicative of the likely presence of peripheral arterial disease.

Current and former academic and research institutions that Vermillion has or has had collaborations with include The Johns Hopkins University School of Medicine ( JHU ); The University of Texas M.D. Anderson Cancer Center ( M.D. Anderson ); University College London ( UCL ); The University of Texas Medical Branch ( UTMB ); The Katholieke Universiteit Leuven; Clinic of Gynecology and Clinic of Oncology, Rigshospitalet, Copenhagen University Hospital ( Rigshospitalet ); The Ohio State University Research Foundation ( OSU ); Stanford University ( Stanford ); and the University of Kentucky ( UK ).

On March 30, 2009, Vermillion filed a voluntary petition for relief (the Bankruptcy Filing ) under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court ). Subsequently, on January 22, 2010, the confirmation order issued by the Bankruptcy Court for approving Vermillion s Second Amended Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code dated January 5, 2010, (the Plan of Reorganization ) became final and all conditions precedent to January 22, 2010, were satisfied or waived. Accordingly, the Company has emerged from bankruptcy under Chapter 11.

The Company expects to incur losses for at least the next year. Due to the Instrument Business Sale and recent commercial launch of the OVA1 Test, the Company will have limited revenues until additional diagnostic tests are developed or the Company continues to successfully commercialize the OVA1 Test. To become profitable, the Company may need to complete development of additional key diagnostic tests, obtain FDA approval and successfully commercialize those products in addition to the OVA1 Test. The Company has a limited history of operations in developing diagnostic tests, and we anticipate that the Company s quarterly results of operations will fluctuate for the foreseeable future due to several factors, including market acceptance of current and new products, the timing and results of the Company s research and development efforts, the introduction of new products by the Company s competitors and possible patent or license issues. The Company s limited operating history as a diagnostics business makes accurate prediction of future results of operations difficult.

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### ***Critical Accounting Policies and Significant Estimates***

The Company has made no significant changes in its critical accounting policies and significant estimates from those disclosed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, except as discussed below:

#### ***Fair Value of Warrants***

Prior to January 1, 2009, common stock warrants were recorded in stockholders equity in accordance with Accounting Standards Codification ( ASC ) 815, Derivatives and Hedging and ASC 825, Financial instruments. However in June 2008, the Financial Accounting Standards Board (the FASB ) issued new guidance now codified in ASC 815 that clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock, which would qualify for classification as a liability. The new guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of the new guidance on January 1, 2009, resulted in the reclassification of certain of Vermillion s outstanding common stock warrants from stockholders deficit to liabilities and a cumulative effect of change in accounting principle on the Company s accumulated deficit. In addition, the common stock warrants are required to be fair valued at each reporting period, with the changes in fair value recognized in the Company s consolidated statement of operations. The Company calculates the fair value of the common stock warrants using a Black Scholes valuation model. Since the outstanding common stock warrants are fair valued at the end of each reporting period, any change in the underlying assumptions to the Black Scholes valuation model, including the volatility and price of Vermillion s common stock, may have a significant impact on the Company s consolidated financial statements.

#### ***Recent Accounting Pronouncements***

In June 2009, ASC 105 Generally Accepted Accounting Principles ( ASC 105 ) was issued. ASC 105 became the single official source of authoritative, nongovernmental generally accepted accounting principles in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the SEC. The Company s accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the footnotes to the Company s consolidated financial statements have been changed to refer to the appropriate section of ASC.

In April 2009, FASB issued ASC 825 Financial Instruments ( ASC 825 ) and ASC 270 Interim Reporting ( ASC 270 ). ASC 825 and ASC 270 requires the Company to disclose on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the consolidated balance sheets at fair value. ASC 825 and ASC 270 are effective for interim periods ending after June 15, 2009. The Company has adopted the provisions of ASC 825 and ASC 270 effective the first quarter of fiscal 2009 (see Note 4 and Note 5). The adoption of this guidance did not have a material impact on the Company s consolidated financial statements

In April 2009, FASB issued ASC 320 Investments Debt and Equity Securities ( ASC 320 ). ASC 320 modifies the other-than-temporary impairment guidance for debt securities through increased consistency in the timing of impairment recognition and enhanced disclosures related to the credit and noncredit components of impaired debt securities that are not expected to be sold. In addition, increased disclosures are required for both debt and equity securities regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. ASC 320 is effective for interim and annual reporting periods that end after June 15, 2009 and early adoption is permitted. The Company has adopted the provisions of ASC 320 on January 1, 2009. The Company has considered the guidance provided by ASC 320 in the Company s determination of impairment, and have determined that the impact was not material (see Note 5).

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In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): *Multiple Deliverable Revenue Arrangements A Consensus of the FASB Emerging Issues Task Force* . This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The Company has not determined the impact that this update may have on the Company's consolidated financial statements.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect adoption of the updated guidance to have a material impact on its consolidated results of operations or financial condition.

**Table of Contents****Results of Operations**

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

The selected summary financial and operating data of Vermillion for the three months ended September 30, 2009 and 2008, were as follows (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2009	2008	Amount	%
<b>Revenue:</b>				
Products	\$	\$ 5	\$ (5)	(100.00)
Services		66	(66)	(100.00)
Total revenue		71	(71)	(100.00)
<b>Cost of revenue:</b>				
Products		2	(2)	(100.00)
Services				
Total cost of revenue		2	(2)	(100.00)
Gross profit		69	(69)	(100.00)
<b>Operating expenses:</b>				
Research and development	382	1,135	(753)	(66.34)
Sales and marketing	7	388	(381)	(98.20)
General and administrative	303	1,581	(1,278)	(80.83)
Total operating expenses	692	3,104	(2,412)	(77.71)
Loss from operations	(692)	(3,035)	2,343	(77.20)
Interest income	6	79	(73)	(92.41)
Interest expense	(434)	(508)	74	(14.57)
Realized loss on investments		(1,124)	1,124	(100.00)
Change in fair value and gain from exercise of warrants	(9,494)		(9,494)	
Reorganization items	(398)		(398)	
Other income (expense), net	(3)	(142)	139	(97.89)
Loss before income taxes	(11,015)	(4,730)	(6,285)	132.88
Income tax benefit (expense)		(14)	14	(100.00)
Net loss	\$ (11,015)	\$ (4,744)	\$ (6,271)	132.19

**Products Revenue.** There was no products revenue for the three months ended September 30, 2009 compared to \$5,000 for the same period in 2008. Products revenue of \$5,000 was generated from the sales of thrombotic thrombocytopenic purpura ( TTP ) test component material to The Ohio State University Research Foundation ( OSU ) for the three months ended September 30, 2008.

**Services Revenue.** There was no services revenue for the three months ended September 30, 2009 compared to \$66,000 for the same period in 2008. Services revenue was received from a consortium supported by the European Union for advanced molecular diagnostics research performed.

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**Cost of Products Revenue.** There was no cost of products revenue for the three months ended September 30, 2009 compared to \$2,000 for the same period in 2008. Cost of products revenue related to sales of TTP test component material to OSU.

**Cost of Services Revenue.** There was no cost of services revenue for the three months ended September 30, 2009 and 2008.

**Research and Development Expenses.** Research and development expenses decreased by \$754,000, or 66.4%, for the three months ended September 30, 2009 compared to the same period in 2008. Research and development headcount decreased to one at September 30, 2009, from four at September 30, 2008. Payroll and related expenses, therefore, decreased \$116,000. Consulting and other outside services also decreased by \$94,000 and collaboration costs decreased by \$86,000. Additionally, travel and other operating expenses decreased by \$28,000. Finally, the company relocated to a smaller office in the second quarter of 2008, therefore rent related facilities expenses decreased by \$60,000, depreciation expenses decreased by \$75,000 and loss from disposal of fixed assets decreased by \$294,000. Stock-based compensation expense included in research and development expenses was \$62,000 and \$31,000 for the three months ended September 30, 2009 and 2008, respectively.



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**Sales and Marketing Expenses.** Sales and marketing expenses decreased by \$381,000, or 98.2%, for the three months ended September 30, 2009 compared to the same period in 2008. Employee headcount decreased to zero at September 30, 2009, from four at September 30, 2008. Payroll and related expenses, therefore, decreased by \$199,000; consulting and other outside services decreased by \$15,000, and travel related expenses decreased by \$43,000. Additionally, facilities related expenses decreased by \$83,000; materials decreased by \$22,000; and other operating expenses decreased by \$20,000 because the Company relocated to a smaller office in the second quarter of 2008. Stock-based compensation expense included in sales and marketing expenses was \$4,000 and \$18,000 for the three months ended September 30, 2009 and 2008, respectively.

**General and Administrative Expenses.** General and administrative expenses decreased by \$1,278,000, or 80.8%, for the three months ended September 30, 2009 compared to the same period in 2008. The increase is primarily due to a decrease in payroll and related expenses of \$334,000 since headcount was reduced to one at September 30, 2009, from six at September 30, 2008. Also, the Company suspended certain projects as of September 30, 2009, resulting in a decrease in consulting and other outside services of \$104,000; a decrease in accounting and audit fees of \$149,000; and a decrease in legal fees of \$527,000. Travel and other operating expenses decreased by \$47,000. Stock-based compensation expense included in general and administrative expenses was \$76,000 and \$113,000 for the three months ended September 30, 2009 and 2008, respectively.

**Interest Income.** Interest income decreased by \$73,000, or 92.4%, for the three months ended September 30, 2009, compared to the same period in 2008. The decrease is due to interest earned on a lower balance in the Company's money market account.

**Interest Expense.** Interest expense decreased by \$74,000, or 14.6%, for the three months ended September 30, 2009, compared to the same period in 2008. Interest expense in both periods consisted largely of interest related to Vermillion's convertible senior notes and related party long-term debt. There was no interest expense from the amortization of the conversion feature associated with the 4.50% Notes and underwriter fees associated with the 7.00% Notes for the three months ended September 30, 2009. Interest expense included the amortization of the beneficial conversion feature associated with the 4.50% convertible senior notes and underwriter fees associated with the 7.00% Notes, which amounted to \$52,000 for the three months ended September 30, 2008. The beneficial conversion feature was fully amortized as of August 2008. In addition, interest related to the related party long-term debt was calculated at a lower rate for the three months ended September 30, 2009 compared to the same period in 2008.

**Realized loss on investments.** Loss on investment in auction rate securities was due to an other-than-temporary charge on investments available-for-sale of \$1,748,000 for the three months ended September 30, 2008. There were no losses related to investments available-for-sale for the three months ended September 30, 2009.

**Change in fair value and exercise of warrants.** The change in fair value of warrants was \$15,170,000 for the three months ended September 30, 2009 as a result of warrant revaluations. As a result of warrant exercises, the Company recognized a gain of \$5,676,000 for the three months ended September 30, 2009. Effective January 1, 2009, the adoption of the new accounting guidance resulted in the reclassification of certain outstanding common stock warrants from stockholders' deficit to liability, which further required remeasurement at the end of each reporting period.

**Reorganization items.** Reorganization items, net for the three months ended September 30, 2009 amounted to \$398,000 and includes professional advisory fees and other costs directly associated with the Company's Chapter 11 bankruptcy activities.

**Other Income (Expense), Net.** Net other expense was \$3,000 for the three months ended September 30, 2009 compared to \$142,000 for the same period in 2008. Net other expense for three months ended September 30, 2009 included franchise taxes, offset by a net realized foreign currency exchange gain. Net other expense for the three months ended September 30, 2008 included a net realized foreign currency exchange loss of \$111,000 due to a decrease in foreign currency exchange rates from June 30, 2008, and offering costs amortization related to the convertible senior notes of \$14,000.

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**Income Tax Benefit (Expense).** There was no income tax benefit or expense for the three months ended September 30, 2009 compared to income tax expense of \$14,000 for the same period in 2008. Income tax expense was due to foreign income taxes.

*Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008*

The selected summary financial and operating data of Vermillion for the nine months ended September 30, 2009 and 2008 were as follows (dollars in thousands):

	Nine Months Ended		Increase (Decrease)	
	2009	2008	Amount	%
<b>Revenue:</b>				
Products	\$	\$ 10	\$ (10)	(100.00)
Services		114	(114)	(100.00)
Total revenue		124	(124)	(100.00)
<b>Cost of revenue:</b>				
Products		4	(4)	(100.00)
Services		20	(20)	(100.00)
Total cost of revenue		24	(24)	(100.00)
Gross profit		100	(100)	(100.00)
<b>Operating expenses:</b>				
Research and development	1,515	4,262	(2,747)	(64.45)
Sales and marketing	420	1,784	(1,364)	(76.46)
General and administrative	1,928	5,062	(3,134)	(61.91)
Total operating expenses	3,863	11,108	(7,245)	(65.22)
Loss from operations	(3,863)	(11,008)	7,145	(64.91)
Interest income	21	360	(339)	(94.17)
Interest expense	(1,375)	(1,561)	(186)	(11.92)
Realized loss on investments		(1,748)	(1,748)	(100.00)
Change in fair value and gain from exercise of warrants	(9,473)		(9,473)	
Reorganization items	(935)		(935)	
Other income (expense), net	13	(128)	141	(110.16)
Loss before income taxes	(15,612)	(14,085)	(1,527)	10.84
Income tax benefit (expense)	(11)	34	(45)	(132.35)
Net loss	\$ (15,623)	\$ (14,051)	\$ (1,572)	11.19

**Products Revenue.** There was no products revenue for the nine months ended September 30, 2009, compared to \$10,000 for the same period in 2008. Products revenue of \$10,000 was generated from the sales of thrombotic thrombocytopenic purpura ( TTP ) test component material to OSU.

**Services Revenue.** There was no services revenue for the nine months ended September 30, 2009, compared to \$114,000 for the same period in 2008. Services revenue consisted of \$66,000 received from a consortium supported by the European Union for advanced molecular diagnostics research performed, and \$48,000 from support services provided to a customer in accordance with a consortium agreement, which expired on

March 31, 2008.

**Cost of Products Revenue.** There was no cost of products revenue for the nine months ended September 30, 2009, compared to \$4,000 for the same period in 2008. Cost of products revenue related to sales of TTP test component material to OSU.

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**Cost of Services Revenue.** There was no cost of services revenue for the nine months ended September 30, 2009, compared to \$20,000 for the same period in 2008. Cost of services revenue was associated with support services provided to a customer in accordance with a consortium agreement, which expired on March 31, 2008.

**Research and Development Expenses.** Research and development expenses decreased by \$2,748,000, or 64.5% for the nine months ended September 30, 2009 compared to the same period in 2008. Research and development headcount decreased to one at September 30, 2009, from four at September 30, 2008. Payroll and related expenses, therefore, decreased \$714,000. Outside services decreased by \$301,000 and collaboration costs decreased by \$422,000, primarily due to reduced costs related to clinical trials. Travel expenses also decreased by \$66,000. Depreciation, loss on disposal of fixed assets and lab materials expenses decreased by \$296,000, 328,000 and \$148,000, respectively. Additionally, the company relocated to a smaller office in the second quarter of 2008, therefore rent related facilities expenses decreased by \$433,000 and other operating expenses decreased by \$37,000. Stock-based compensation expense included in research and development expenses was \$90,000 and \$92,000 for the nine months ended September 30, 2009 and 2008, respectively.

**Sales and Marketing Expenses.** Sales and marketing expenses decreased by \$1,364,000, or 76.5%, for the nine months ended September 30, 2009 compared to the same period in 2008. Employee headcount decreased to zero at September 30, 2009, from four at September 30, 2008. Payroll and related expenses, therefore, decreased by \$607,000; consulting and other outside services decreased by \$106,000; and travel and other operating expenses decreased by \$201,000. Additionally, facilities related expenses decreased by \$385,000 because the Company relocated to a smaller office in the second quarter of 2008. Stock-based compensation expense included in sales and marketing expenses was \$15,000 and \$78,000 for the nine months ended September 30, 2009 and 2008, respectively.

**General and Administrative Expenses.** General and administrative expenses decreased by \$3,134,000, or 61.9%, for the nine months ended September 30, 2009 compared to the same period in 2008. Payroll and related expenses decreased by \$318,000 due to a reduction in headcount. Also, consulting and other outside services decreased by \$756,000; accounting and audit fees decreased by \$567,000; and legal fees decreased by \$1,044,000 as the Company suspended certain projects as of September 30, 2009. Facilities related expenses decreased by \$182,000 because the Company relocated to a smaller office in the second quarter of 2008. Additionally, equipment expenses decreased by \$237,000 and travel and other operating expenses decreased by \$21,000. Stock-based compensation expense included in general and administrative expenses was \$240,000 and \$309,000 for the nine months ended September 30, 2009 and 2008, respectively.

**Interest Income.** Interest income decreased by \$339,000, or 94.2%, for the nine months ended September 30, 2009, compared to the same period in 2008. The decrease is due to interest earned on a lower balance in the Company's money market account.

**Interest Expense.** Interest expense decreased by \$186,000, or 11.9%, for the nine months ended September 30, 2009, compared to the same period in 2008. Interest expense in both periods consisted largely of interest related to Vermillion's convertible senior notes and related party long-term debt. Interest expense included the amortization of the beneficial conversion feature associated with the 4.50% Notes and underwriter fees associated with the 7.00% Notes, which amounted to \$30,000 and \$166,000 for the nine months ended September 30, 2009 and 2008, respectively. The beneficial conversion feature was fully amortized as of August 2008. In addition, interest related to the related party long-term debt were calculated at a lower rate for the nine months ended September 30, 2009 compared to the same period in 2008.

**Realized loss on investments.** Loss on investment in auction rate securities was due to an other-than-temporary charge on investments available-for-sale of \$1,748,000 for the nine months ended September 30, 2008. There were no losses related to investments available-for-sale for the nine months ended September 30, 2009.

**Change in fair value and exercise of warrants.** The change in fair value of warrants was \$15,149,000 for the nine months ended September 30, 2009 as a result of warrant revaluations. As a result of warrant exercises, the Company recognized a gain of \$5,676,000 for the nine months ended September 30, 2009. Effective January 1, 2009, the adoption of the new accounting guidance resulted in the reclassification of certain outstanding common stock warrants from stockholders' deficit to liability, which further required remeasurement at the end of each reporting period.

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**Reorganization items.** Reorganization items, net for the nine months ended September 30, 2009 amounted to \$935,000 and includes professional fees and other costs directly associated with the Company's Chapter 11 bankruptcy activities.

**Other Income (Expense), Net.** Net other income was \$13,000 for the nine months ended September 30, 2009 compared to net other expense of \$128,000 for the same period in 2008. Net other income for the nine months ended September 30, 2009, included vendor refunds, offset by a net realized foreign exchange currency loss and offering costs amortization related to the convertible senior notes. Net other expense for nine months ended September 30, 2008, included the net realized foreign currency exchange loss of \$24,000 due to the decrease in foreign currency exchange rates from December 31, 2007, and offering costs amortization related to the convertible senior notes of \$49,000.

**Income Tax Benefit (Expense).** Income tax expense for the six months ended September 30, 2009 was \$11,000 compared to an income tax benefit of \$34,000 for the same period in 2008. The income tax benefit was due to foreign income tax refunds.

### ***Liquidity and Capital Resources***

The Company has experienced significant cumulative operating losses since inception and, as of September 30, 2009, had an accumulated deficit of \$273,050,000. On March 30, 2009, the Company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). On October 16, 2009, the Bankruptcy Court approved for the Company to enter into a Debtor-In-Possession Credit and Security Agreement ("DIP financing") with Quest for proceeds up to \$1,500,000, which is secured by a first lien on substantially all of the Company's assets and bears interest at the prime rate plus 0.5% per annum. The Company utilized \$400,000 of the DIP financing to fund general corporate matters. From September 2009 through December 31, 2009, the Company issued 886,372 shares of its common stock for total net proceeds of \$3,521,000 from the exercise of its common stock warrants. On January 7, 2010, the United States Bankruptcy Court for the District of Delaware issued a confirmation order approving the Company's Second Amended Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code (the "Plan of Reorganization"). On January 7, 2010, in connection with the Plan of Reorganization, the Company completed a private placement sale of 2,327,869 shares of its common stock to a group of new and existing investors for \$43,050,000 in gross proceeds. Subsequently on January 22, 2010, the confirmation order issued by the Bankruptcy Court for approving the Company's Plan of Reorganization became final and all conditions precedent to January 22, 2010 were satisfied or waived. Accordingly, the Company emerged from bankruptcy under Chapter 11.

On March 9, 2010, the Company commercially launched its OVA1 Test. The Company will continue to expend substantial resources in the selling and marketing of the OVA1 Test and research and development of additional key diagnostic tests, obtain FDA approval and successfully commercialize those products in addition to the OVA1 Test. The Company will continue to be in an accumulated deficit position unless sufficient revenues can be generated to offset expenses.

The Company believes that its existing cash and cash equivalents will be sufficient to meet the Company's cash requirements for at least the next twelve months.

The successful achievement of our business objectives may require additional financing and therefore, we may need to raise additional capital or incur indebtedness to continue to fund the Company's future operations. The Company may seek to raise capital through a variety of sources, including:

the public equity market;

private equity financing;

collaborative arrangements;

licensing arrangements; and/or

public or private debt.

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Any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Additional funding may not be available when needed or on terms acceptable to us. If we are unable to obtain additional capital, the Company may be required to delay, reduce the scope of or eliminate the Company's sales and marketing and research and development activities or not be able to pay Vermillion's convertible senior notes. The Company's future liquidity and capital requirements will depend upon many factors, including, among others:

Resources devoted to establish sales, marketing and distribution capabilities;

The liquidity of auction rate securities held in Vermillion's investment portfolio;

The rate of product adoption by doctors and patients;

Our determination to acquire or invest in other products, technologies and businesses;

The market price of Vermillion's common stock as it affects the exercise of stock options and the conversion terms of Vermillion's convertible debt; and

The insurance payer community's acceptance of and reimbursement for the OVA1 Test.

Cash and cash equivalents at September 30, 2009 and December 31, 2008, were \$1,460,000 and \$2,464,000, respectively. At September 30, 2009, the working deficit was \$7,815,000, and at December 31, 2008, working deficit was \$3,727,000. The increase in working deficit for the nine months ended September 30, 2009, was principally due to funds used to finance operating losses of \$15,623,000.

Net cash used in operating activities was \$2,320,000 for the nine months ended September 30, 2009, primarily as a result of the \$15,623,000 net loss reduced by \$10,233,000 of noncash expenses that included the change in fair value and gain from exercise of warrants of \$9,473,000; depreciation and amortization of \$270,000; stock-based compensation expense of \$345,000; and amortization of convertible senior notes discount of \$122,000. Net cash used in operating activities was also offset by \$3,070,000 of cash provided by changes in operating assets and liabilities. Net cash used in operating activities was \$13,343,000 for the nine months ended September 30, 2008, primarily as a result of the \$14,051,000 net loss reduced by \$3,581,000 of noncash expenses that included depreciation and amortization of \$796,000; loss on sale and disposal of property and equipment of \$343,000; other than temporary charge on investments of \$1,748,000; stock-based compensation of \$479,000; and amortization of convertible senior notes discount of \$166,000. Net cash used in operating activities was also increased by \$2,847,000 of cash used in changes in operating assets and liabilities.

Net cash provided by investing activities was \$42,000 for the nine months ended September 30, 2009, which primarily resulted from proceeds from the maturity of a certificate of deposit pledged as collateral on a letter of credit and, to a lesser extent, the proceeds from the sale of equipment. Net cash provided by investing activities was \$7,532,000 for the nine months ended September 30, 2008, which primarily resulted from the net sales of investments available-for-sale of \$7,575,000.

Net cash provided by financing activities was \$1,275,000 for the nine months ended September 30, 2009, which resulted from net proceeds in connection with stock warrant exercises. Net cash provided by financing activities was \$2,000 for the nine months ended September 30, 2008, which resulted from the purchase of common stock under the employee stock purchase plan.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Per Item 305(e) of Regulation S-K, information is not required.

**Item 4T. Controls and Procedures**

**Disclosure Controls and Procedures.** Vermillion, Inc. ( Vermillion ; Vermillion and its wholly owned subsidiaries are collectively referred to as the Company ), formerly known as CIPHERGEN BIOSYSTEMS, INC., has carried out an evaluation, under the supervision and with the participation of the Company's management, including Vermillion's Chief Executive Officer and Interim Chief Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2008 and September 30, 2009, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based upon that evaluation, Vermillion's Chief Executive Officer and Interim Chief Accounting Officer concluded that the Company's disclosure controls and procedures as of December 31, 2008 and September 30, 2009 were not effective because of a material weakness in internal control over financial reporting described below.

**Management's Report on Internal Control over Financial Reporting.** The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by or under the supervision of a company's principal executive and principal financial officers, and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. It includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of a company are being made only in accordance with authorizations of management and board of directors of a company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on its financial statements.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 and September 30, 2009. In making its assessment of internal control, management used the criteria described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations ( COSO ) of the Treadway Commission. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

As a result of the Company filing a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court on March 30, 2009, the Company did not maintain sufficient staff with the necessary experience in US GAAP to timely perform its controls procedures relating to the accounting and reporting processes. As a result, the Company was not able to timely file its Forms 10-Q and 10-K in accordance with the Exchange Act's rules and regulations. This control deficiency, if not corrected, could result in a material misstatement of the Company's annual or interim consolidated financial statements that would not be prevented or detected on a timely basis. Therefore, management has concluded that this control deficiency constitutes a material weakness.

As a result of the material weakness described above, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2008 and September 30, 2009, based on the criteria identified above. This Quarterly Report on Form 10-Q does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 and September 30, 2009, were not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the United States Securities and Exchange Commission ( SEC ) that permit the Company to provide only management's report in this Quarterly Report on Form 10-Q.





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***Remediation Activities***

The Company continues to evaluate its resource requirements to ensure the timely and effective review and management of its accounting and reporting process. On February 1 and May 17, 2010, the Company hired an Interim Vice President, Finance & Chief Accounting Officer and Vice President & Chief Financial Officer, respectively (collectively as Financial Officers ), to help remedy the staffing deficiency. The Financial Officers are in the process of evaluating the staffing requirements and will to the extent necessary, hire additional finance and accounting staff to allow for the preparation of financial statements to be in accordance with US GAAP, the timely filing of periodic financial reports with the SEC and effective internal control over financial reporting.

***Changes in Internal Control Over Financial Reporting.*** The Company has made no change in its internal control over financial reporting that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the three months ended September 30, 2009.

**Table of Contents****PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

On September 17, 2007, Molecular Analytical Systems ( MAS ) filed a lawsuit in the Superior Court of California for the County of Santa Clara naming Vermillion, Inc. ( Vermillion ; Vermillion and its wholly-owned subsidiaries are collectively referred to as the Company ) and Bio-Rad Laboratories, Inc. ( Bio-Rad ) as defendants (the State Court lawsuit ). Under the State Court lawsuit, MAS seeks an unspecified amount of damages and alleges, among other things, that Vermillion is in breach of its license agreement with MAS relating to Surface Enhanced Laser Desorption/Ionization ( SELDI ) technology as a result of Vermillion s entry into a sublicense agreement with Bio-Rad. Vermillion filed its general denial and affirmative defense on April 1, 2008. The Company and Bio-Rad thereafter moved to compel arbitration of the State Court lawsuit, which motion was denied in the trial court. Thereafter, the Company appealed the denial of the motion to compel arbitration, which appeal had the effect of staying the State Court lawsuit, which stay was further extended in both the state trial and appellate courts when the Company filed on March 30, 2009, a Voluntary Petition for Relief under Chapter 11 in the United States Bankruptcy Court for the District of Delaware. MAS filed a proof of claim on June 30, 2009, in connection with the Company s Chapter 11 bankruptcy proceedings. The proof of claim mirrored the MAS lawsuit and asserted that the Company breached the Exclusive License Agreement by transferring certain technologies to Bio-Rad without obtaining MAS s consent. MAS listed the value of its claim as in excess of \$5,000,000. On December 28, 2009, the Company objected to MAS s Proof of Claim in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court confirmed the Company s plan of reorganization. Per the Court s order confirming the plan, the Company s bankruptcy case will be closed after a final, non-appealable judgment is entered on MAS s claims. After the plan was confirmed, MAS filed a motion with the Bankruptcy Court asking it to abstain from hearing its proof of claim and asked the Bankruptcy Court to grant relief from stay so that MAS could proceed with the State Court lawsuit in California. The Bankruptcy Court granted that motion on March 15, 2010. Thereafter, the California Court of Appeal has set oral argument on the Company s appeal of the trial court order denying the Company s motion to compel arbitration for June 17, 2010. Management cannot predict the ultimate outcome of this matter at this time.

On March 30, 2009, Vermillion filed a voluntary petition for relief (the Bankruptcy Filing ) under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court issued a confirmation order approving Vermillion s Second Amended Plan of Reorganization (the Plan of Reorganization ). On January 22, 2010, the confirmation order issued by the Bankruptcy Court became final and all conditions precedent to January 22, 2010 were satisfied or waived. Accordingly, the Company has emerged from bankruptcy under Chapter 11.

On June 26, 2006, Health Discovery Corporation ( HDC ) filed a lawsuit against Vermillion in the United States District Court for the Eastern District of Texas, Marshall Division (the Court ), claiming that software used in certain Vermillion ProteinChip Systems infringes on three of its United States patents. HDC sought injunctive relief as well as unspecified compensatory and enhanced damages, reasonable attorney s fees, prejudgment interest and other costs. On August 1, 2006, Vermillion filed an unopposed motion with the Court to extend the deadline for Vermillion to answer or otherwise respond until September 2, 2006. Vermillion filed its answer and counterclaim to the complaint with the Court on September 1, 2006. Concurrent with its answer and counterclaims, Vermillion filed a motion to transfer the case to the Northern District of California. On January 10, 2007, the Court granted Vermillion s motion to transfer the case to the Northern District of California. The parties met for a scheduled mediation on May 7, 2007. On July 10, 2007, Vermillion entered into a license and settlement agreement with HDC (the HDC Agreement ) pursuant to which it licensed more than 25 patents covering HDC s support vector machine technology for use with SELDI technology. Under the terms of the HDC Agreement, Vermillion receives a worldwide, royalty-free, non-exclusive license for life sciences and diagnostic applications of the technology and it has access to any future patents resulting from the underlying intellectual property in conjunction with use of SELDI systems. Pursuant to the HDC Agreement, Vermillion paid to HDC \$200,000 upon entry into the agreement on July 13, 2007, \$100,000 three months following the date of the agreement on October 9, 2007, and \$150,000 twelve months following the date of the agreement on July 9, 2008. The remaining \$150,000 under the HDC Agreement is payable twenty-four months following the date of the agreement on July 10, 2009. The Company paid the remaining \$150,000 upon exiting Chapter 11 bankruptcy in January 2010. The total settlement of \$600,000 was expensed for the year ended December 31, 2007. The HDC Agreement settled all disputes between Vermillion and HDC.

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In connection with the Bankruptcy Filing, on April 21, 2009, the Company filed the Debtor's Motion for Entry of an Order Approving the Debtor's Incentive Plan (the "Incentive Plan") and Authorizing Payments thereunder pursuant to §§ 363(b) and 503(b) of the Bankruptcy Code (the "Incentive Plan Motion") which sought to provide proper incentives to the directors (Gail Page, John Hamilton and James Burns, collectively, the "Directors") to help achieve a successful sale or restructuring of the Company. At a hearing on June 22, 2009, the Court entered an Order approving the Incentive Plan Motion (the "Incentive Plan Order"). The Incentive Plan is only triggered upon the occurrence of a qualified transaction defined as the closing of any sale pursuant to section 363 of the Bankruptcy Code or the effectiveness of a Reorganization Plan confirmed pursuant to section 1129 of the Bankruptcy Code. The Incentive Plan payment was based upon a percentage of (A) the gross proceeds of Asset Sales, both prior to and after the Food and Drug Administration approval of the ovarian tumor triage test, and (B) the value of consideration - cash, debt and equity - distributed pursuant to a confirmed Reorganization Plan. In the end, the Incentive Plan Order provided that the Directors would receive: (i) zero, on Qualified Transaction Proceeds of 3,000,000 or less, (ii) 6% on Qualified Transaction Proceeds of \$3,000,001 to \$10,000,000, and (iii) 8% on Qualified Transaction Proceeds of greater than \$10,000,000. While the Incentive Plan Order provided the Company with the authority to make distributions under the Incentive Plan, the Company agreed as part of the Plan of Reorganization to seek final judicial approval of the amounts to be paid pursuant to the Incentive Plan. On April 13, 2010, counsel for the Company, the Official Committee of the Equity Security Holders, and the Directors submitted a proposed settlement to the Bankruptcy Court. On April 14, 2010, after a hearing, an order was issued by the Bankruptcy Court approving the Management Incentive Plan. Under the Management Incentive Plan, the Company was directed to distribute an aggregate of \$5,000,000 in cash and 302,541 shares of restricted stock in Incentive Plan Payments to the Directors. All such restricted stock is to be distributed, with 1/24th of it to vest on each monthly anniversary of the vesting commencement date, June 22, 2009. The total Incentive Plan Payments are to be allocated to Gail Page, James Burns and John Hamilton on a 60%-20%-20% basis, respectively, or as otherwise may be agreed to in writing by the Directors. The contingency was accounted for upon the occurrence of the qualified transaction on January 7, 2010 when the Bankruptcy Courts issued a confirmation order approving the Company's Reorganization Plan.

In addition, from time to time, the Company is involved in legal proceedings and regulatory proceedings arising out of its operations. The Company establishes reserves for specific liabilities in connection with legal actions that it deems to be probable and estimable. Other than as disclosed above, the Company is not currently a party to any proceeding, the adverse outcome of which would have a material adverse effect on the Company's financial position or results of operations.

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**Item 1A. Risk Factors**

*You should carefully consider the following risk factors and uncertainties together with all of the other information contained in this Quarterly Report on Form 10-Q, Vermillion, Inc. ( Vermillion ) and subsidiaries (collectively referred to as the Company ) Annual Report on Form 10-K for the year ended December 31, 2008, including the audited consolidated financial statements and accompanying notes, and the Company s other filings from time to time with the Securities and Exchange Commission. The risks and uncertainties management ( we , us or our ) describes below are the only ones the Company faces. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect the Company s business.*

***Risks Related to Vermillion s Emergence from Bankruptcy***

*Vermillion filed a petition for relief under Chapter 11 of the United States Bankruptcy Code on March 30, 2009, and, despite having emerged from bankruptcy on January 22, 2010, Vermillion continues to be subject to the risks and uncertainties associated with residual Chapter 11 bankruptcy proceedings.*

On March 30, 2009, Vermillion filed a voluntary petition for relief (the Bankruptcy Filing ) under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court ). Subsequently on January 22, 2010, the confirmation order issued by the Bankruptcy Court for approving Vermillion s Second Amended Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code dated January 5, 2010 (the Plan of Reorganization ) became final and all conditions precedent January 22, 2010 were satisfied or waived. Accordingly, the Company emerged from bankruptcy under Chapter 11. Because of the residual risks and uncertainties associated with Vermillion s Chapter 11 bankruptcy proceedings, the ultimate impact that events that occurred during, or that may occur subsequent to, these proceedings will have on the Company s business, financial condition and results of operations cannot be accurately predicted or quantified.

*The Company s actual financial results after Vermillion s emergence from bankruptcy under Chapter 11 may vary significantly from the projections filed with the Bankruptcy Court.*

Vermillion emerged from bankruptcy under Chapter 11 on January 22, 2010, pursuant to terms of its Plan of Reorganization approved by the Bankruptcy Court. In connection with the Plan of Reorganization, the Company was required to prepare projected financial information to demonstrate to the Bankruptcy Court the feasibility of the Plan of Reorganization and the Company s ability to continue operations upon emergence from bankruptcy under Chapter 11. The projected financial information filed with the Bankruptcy Court reflected numerous assumptions concerning anticipated future performance and prevailing and anticipated market and economic conditions, many of which were and continue to be beyond our control and which may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. The Company s actual results will likely vary from those contemplated by the projected financial information and the variations may be material.

*The Company s actual financial results after emergence from bankruptcy under Chapter 11 may not be comparable to its historical financial information.*

As a result of the consummation of the Plan of Reorganization and the transactions contemplated thereby, the Company s financial condition and results of operations from and after January 22, 2010, may not be comparable to the financial condition or results of operations reflected in the Company s historical financial statements.

*We cannot be certain that the Chapter 11 bankruptcy proceedings will not adversely affect the Company s operations going forward.*

Although Vermillion emerged from bankruptcy under Chapter 11 upon consummation of the Plan of Reorganization, we cannot assure you that having been subject to bankruptcy protection will not adversely affect the Company s operations going forward, including its ability to negotiate favorable terms from suppliers, partners and others and to attract and retain customers. The failure to obtain such favorable terms and retain customers could adversely affect the Company s financial performance.

**Table of Contents*****Risks Related to the Company's Business***

*We expect to incur a net loss for 2011 and 2010. If we are unable to generate significant diagnostic products revenue, the Company may never achieve profitability.*

From the Company's inception through December 31, 2009, the Company has generated cumulative revenue from the sale of products and services to customers of \$229,424,000 and has incurred net losses of \$279,475,000. The Company has experienced significant operating losses each year since its inception and we expect these losses to continue for at least the next year, resulting in an expected net loss for the years ending December 31, 2011 and 2010. For example, the Company experienced net losses of \$22,048,000, \$18,330,000 and \$21,282,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The Company's losses have resulted principally from costs incurred in research and development, sales and marketing, litigation, and general and administrative costs associated with the Company's operations. These costs have exceeded the Company's gross profit, which was generated principally from product sales and service income derived from the protein research products and collaborative services business (the "Instrument Business"), before the assets and liabilities were sold (the "Instrument Business Sale") to Bio-Rad Laboratories, Inc. ("Bio-Rad") on November 13, 2006. We expect to incur additional operating losses that may be substantial. The Company's inability to become and remain profitable may depress the market price of Vermillion's common stock and impair the Company's ability to raise capital and continue our operations. Even if the Company does achieve profitability, the Company may not be able to sustain or increase profitability on a quarterly or annual basis.

*We may need to raise additional capital for the Company in the future, and if we are unable to secure adequate funds on terms acceptable to us, we may be unable to execute our business plan.*

We currently believe that the Company's current cash resources together with existing debt facilities will be sufficient to meet the Company's anticipated needs for the next 12 months. However, we may need to raise additional capital sooner in order to develop new or enhanced products or services, increase our efforts to discover biomarkers and develop them into diagnostic products, or acquire complementary products, businesses or technologies. We may seek to raise additional capital through the issuance of equity or debt securities, or a combination thereof, in the public or private markets, through a collaborative arrangement or sale of assets, or through the liquidation of Vermillion's investments in auction rate securities. Additional financing opportunities may not be available to us, or if available, may not be on favorable terms. The availability of financing opportunities will depend, in part, on market conditions, and the outlook for the Company's business. Any future issuance of equity securities or securities convertible into equity would result in substantial dilution to Vermillion's stockholders, and the securities issued in such a financing may have rights, preferences or privileges senior to those of Vermillion's common stock or convertible senior notes. If Vermillion raises additional funds by issuing debt, the Company may be subject to limitations on its operations, through debt covenants or other restrictions. If Vermillion obtains additional funds through arrangements with collaborators or strategic partners, Vermillion may be required to relinquish rights to certain technologies or products that it might otherwise seek to retain. If adequate and acceptable financing is not available to Vermillion at the time that it seeks to raise additional capital, our ability to execute our business plan successfully may be negatively impacted.

*Substantial leverage and debt service obligations may adversely affect the Company's consolidated cash flows.*

As of December 31, 2009, Vermillion had \$7,365,000 of outstanding principal under its convertible senior notes, including \$5,000,000 in aggregate principal of its 7.00% convertible senior notes due September 1, 2011 (the "7.00% Notes"), and \$2,365,000 in aggregate principal of its 4.50% convertible senior notes due September 1, 2008 (the "4.50% Notes"), and \$10,000,000 outstanding under Vermillion's secured line of credit with Quest Diagnostics Incorporated ("Quest"). As a result of negotiations between the holders of the 4.50% Notes and Vermillion, the \$2,500,000 outstanding principal balance related to the 4.50% Notes, which matured on September 1, 2008, was not redeemed by Vermillion. Interest of \$56,000 related to the 4.50% Notes was paid on the maturity date, September 1, 2008. Pursuant to the 4.50% Notes indenture agreement, late payment may result in interest to be calculated on the outstanding principal balance and overdue interest. On December 11, 2008, the trustee of the Indenture and the holders of the \$2,500,000 outstanding principal balance related to the 4.50% Notes agreed to extend the maturity date of the 4.50% Notes to September 1, 2009, and to waive any past default by Vermillion of its obligation to make payment on the principal of and interest on the 4.50% Notes.

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From November 24, 2009 to January 22, 2010, Vermillion exchanged a total of 15,794 shares of its common stock for \$305,000 in principal and \$18,000 in unpaid interest related to the 4.50% Notes. On January 22, 2010, Vermillion paid the remaining unpaid principal balance of \$2,195,000 and interest of \$140,000 related to the 4.50% Notes. None of the 4.50% Notes are outstanding.

From November 30, 2009, through January 22, 2010, Vermillion exchanged 428,906 shares of its common stock for \$7,100,000 in principal and unpaid interest of \$732,000 related to the 7.00% Notes. From October 21, 2009 through November 19, 2009, \$4,400,000 in principal related to the 7.00% Notes was converted into 220,000 shares of Vermillion's common stock. On January 22, 2010, Vermillion paid \$362,000 of interest related to the 7.00% Notes. \$5,000,000 in principal of the 7.00% Notes remain outstanding.

Quest provided Vermillion with \$10,000,000 secured line of credit, which was forgivable based upon the achievement of certain milestones related to the development, regulatory approval and commercialization of certain diagnostic tests of Vermillion. As of Vermillion's emergence from bankruptcy, several of the milestones had been met and the principal balance of the secured line of credit was reduced to \$7,000,000. The \$7,000,000 secured line of credit is secured by Vermillion's assets, and is senior to the outstanding \$5,000,000 of the 7.00% Notes.

As a result of this indebtedness, Vermillion has substantial principal and interest payment obligations. The degree to which the Company is leveraged could, among other things:

make it difficult for Vermillion to make payments on the convertible senior notes and secured line of credit;

make it difficult for Vermillion to obtain financing for working capital, acquisitions or other purposes on favorable terms, if at all;

make the Company more vulnerable to industry downturns and competitive pressures; and

limit our flexibility in planning for or reacting to changes in the Company's business.

Vermillion's ability to meet its debt service obligations will depend upon the Company's future performance, which will be subject to financial, business and other factors affecting the Company's operations, many of which are beyond our control. If Vermillion cannot meet its debt service obligation it would have a material adverse effect on the Company's consolidated financial position.

*Vermillion holds auction rate securities in its portfolio of investments. Due to failed auctions of individual auction rate securities held in Vermillion's investment portfolio, Vermillion is currently unable to liquidate its auction rate securities into cash at par value. If Vermillion is required to liquidate its investments in the future, the Company may incur a significant loss.*

At December 31, 2009, Vermillion's investments consisted of \$526,000 invested in auction rate securities, which were classified as available-for-sale long-term investments due to failed auctions related to these investments through December 31, 2009. The underlying assets of these auction rate securities include private placements of credit linked notes. These auction rate securities are intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals generally every 28 days. Upon an auction failure, the interest rates do not reset at a market rate but instead reset based on a formula contained in the security, which rate is generally higher than the current market rate. The failure of the auctions means Vermillion may be unable to liquidate its auction rate securities into cash at par value until a future auction of these investments is successful or the auction rate security is refinanced by the issuer into another type of instrument. If Vermillion is required to redeem its investments at less than par value or to liquidate its investments at a deep discount in the future, Vermillion may incur a significant loss on the Company's business, consolidated results of operations, financial condition and cash flows. If Vermillion is unable to liquidate its investments in auction rate securities or there is additional other-than-temporary impairment in the market value of its investments in auction rate securities, this will have an adverse effect on the Company's business, consolidated results of operations, financial condition and cash flows, and may increase the volatility of Vermillion's common stock price.

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*We may not succeed in developing additional diagnostic products, and, even if we do succeed in developing additional diagnostic products, the diagnostic products may never achieve significant commercial market acceptance.*

The Company's success depends on our ability to continue to develop and commercialize diagnostic products. There is considerable risk in developing diagnostic products based on Vermillion's biomarker discovery efforts as candidate biomarkers may fail to validate results in larger clinical studies and may not achieve acceptable levels of clinical sensitivity and specificity. If we do succeed in developing additional diagnostic tests with acceptable performance characteristics, we may not succeed in achieving significant commercial market acceptance for those tests. Our ability to successfully commercialize diagnostic products that Vermillion may develop, such as tests, kits and devices, will depend on several factors, including:

our ability to convince the medical community of the safety and clinical efficacy of Vermillion's products and their advantages over existing diagnostic products;

our ability to further establish business relationships with other diagnostic companies that can assist in the commercialization of these products; and

the agreement by Medicare and third-party payers to provide full or partial reimbursement coverage for Vermillion's products, the scope and extent of which will affect patients' willingness to pay for Vermillion's products and will likely heavily influence physicians' decisions to recommend Vermillion's products.

These factors present obstacles to significant commercial acceptance of Vermillion's potential diagnostic products, which the Company will have to spend substantial time and the Company's financial resources to overcome and there is no guarantee that we will be successful in doing so. Our inability to do so successfully would prevent the Company from generating revenue from future diagnostic products and from developing a profitable business.

*The diagnostics space is competitive and we may not be able to compete successfully, which would adversely impact our ability to generate revenue.*

Our principal competition currently comes from the current clinical practices (e.g. those of obstetricians and gynecologists and gynecologic oncologists in the case of the OVA1 ovarian tumor triage test (the OVA1 Test)). We believe that OVA1 Test provides a significant improvement over current clinical practices, but if we are not able to convince clinicians of this, our ability to commercialize OVA1 Test would be adversely affected. The field of ovarian cancer diagnostics generally and the management of ovarian adnexal masses specifically are competitive. Companies such as Fujirebio, Correlologic, LabCorp, ArrayIt, HealthLynx, Becton Dickinson among others have publicly disclosed that they have been or are currently working on ovarian cancer diagnostic assays. Additionally, academic institutions periodically report new findings in ovarian cancer diagnostics. If we are unable to license these findings and if these findings are licensed to other parties, we may be at a competitive disadvantage.

We have priced OVA1 Test at a point that recognizes the value-added by its increased sensitivity for ovarian malignancy. If others develop a test that is viewed to be similar to OVA1 Test in efficacy but is priced at a lower point, we may have to lower the price of OVA1 Test, which would impact our margins and potential for profitability.

*Our ability to commercialize Vermillion's potential diagnostic tests is heavily dependent on its strategic alliance with Quest.*

On July 22, 2005, Vermillion and Quest entered into a strategic alliance agreement (the Strategic Alliance Agreement) to develop and commercialize up to three diagnostic tests from Vermillion's product pipeline (the Strategic Alliance). The term of the Strategic Alliance Agreement, which is the period Vermillion has an obligation to present three diagnostic tests to Quest for potential election, was set to expire on the earlier of (i) the three-year anniversary of the agreement, which was July 22, 2008, and (ii) the date on which Quest commercializes the three diagnostic tests covered by such agreement. On July 21, 2008, Vermillion and Quest amended the Strategic Alliance Agreement to extend the term of the agreement to end on the earlier of (i) September 1, 2008 and (ii) the date on which Quest commercializes the three diagnostic tests. On October 24, 2008, Vermillion and Quest amended the Strategic Alliance Agreement to extend the term of the agreement to end on the earlier of (i) September 1, 2009 and (ii) the date on which Quest commercializes the three diagnostic tests. Subsequently on October 7, 2009, Vermillion and Quest amended the Strategic Alliance Agreement (the Strategic Alliance Agreement and the July 21, 2008, October 24, 2008 and October 7, 2009, amendments are collectively referred to as the Amended Strategic Alliance Agreement) to extend the term of the agreement to



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end on the earlier of (i) October 7, 2012 and (ii) the date on which Quest makes its third development election. To date, Quest has selected only two diagnostic tests, which are the peripheral artery disease ( PAD ) blood test ( VASCLIR ) and the OVA1 Test, to commercialize. If this Strategic Alliance does not continue for its full term or if Quest fails to proceed to diligently perform its obligations as a part of the Strategic Alliance, such as independently developing, validating, and commercializing potential diagnostic tests, our ability to commercialize Vermillion s potential diagnostic tests would be seriously harmed. Due to the current uncertainty with regard to the United States Food and Drug Administration (the FDA ) regulation of analyte specific reagents ( ASRs ) or, for other reasons, Quest may elect to forgo development of ASR home brew laboratory tests and instead elect to wait for the development of in vitro diagnostic ( IVD ) test kits, which would adversely affect the Company s revenues. If we elect to increase the Company s expenditures to fund in-house diagnostic development programs or research programs, the Company will need to obtain additional capital, which may not be available on acceptable terms, or at all.

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*The commercialization of Vermillion's diagnostic tests may be affected adversely by changing FDA regulations, and any delay by or failure of the FDA to approve any of Vermillion's diagnostic tests submitted to the FDA may adversely affect the Company's consolidated revenues, results of operations and financial condition.*

The current regulatory environment with regard to ASRs and IVD multivariate index assays ( IVDMIA's ) in particular, such as Vermillion's ovarian cancer diagnostic test, is very unclear. To the extent the FDA requires that Vermillion's diagnostic tests receive FDA 510(k) clearance or FDA pre-market approval, our ability to develop and commercialize Vermillion's diagnostic tests may be prevented or significantly delayed, which would adversely affect the Company's consolidated revenues, results of operations and financial condition. Any delay by or failure of the FDA to approve any diagnostic test that Vermillion submits to the FDA may adversely affect the Company's consolidated revenues, results of operations and financial condition.

*If we fail to continue to develop Vermillion's technologies, we may not be able to successfully foster adoption of Vermillion's products and services or develop new product offerings.*

Vermillion's technologies are new and complex, and are subject to change as new discoveries are made. New discoveries and advancements in the diagnostic field are essential if we are to foster the adoption of Vermillion's product offerings. Development of these technologies remains a substantial risk to the Company due to various factors, including the scientific challenges involved, our ability to find and collaborate with others working in the diagnostic field, and competing technologies, which may prove more successful than Vermillion's technologies. In addition, we have reduced Vermillion's research and development headcount and expenditures, which may adversely affect Vermillion's ability to further develop its technologies.

*If we fail to maintain Vermillion's rights to utilize intellectual property directed to diagnostic biomarkers, Vermillion may not be able to offer diagnostic tests using those biomarkers.*

One aspect of our business plan is to develop diagnostic tests based on certain biomarkers, which Vermillion has the right to utilize through licenses with its academic collaborators, such as The Johns Hopkins University School of Medicine and The University of Texas M.D. Anderson Cancer Center. In some cases, Vermillion's collaborators own the entire right to the biomarkers. In other cases, Vermillion co-owns the biomarkers with its collaborators. If, for some reason, Vermillion loses its license to biomarkers owned entirely by its collaborators, Vermillion may not be able to use those biomarkers in diagnostic tests. If Vermillion loses its exclusive license to biomarkers co-owned by Vermillion and its collaborators, Vermillion's collaborators may license their share of the intellectual property to a third party that may compete with the Company in offering diagnostic tests, which would materially adversely affect the Company's consolidated revenues, results of operations and financial condition.

*Vermillion has drawn \$10,000,000 from the secured line of credit provided by Quest. If Vermillion fails to achieve the milestones for the forgiveness of the secured line of credit set forth in Vermillion's amended credit agreement with Quest, Vermillion will be responsible for full repayment of the secured line of credit on or before October 7, 2012.*

As of December 31, 2009, Vermillion has drawn \$10,000,000 from the secured lined of credit in connection with the Strategic Alliance. Vermillion borrowed in monthly increments of \$417,000 over a two-year period, and has paid all interest that was due. Funds from this secured line of credit may only be used for certain costs and expenses directly related to the Strategic Alliance, with forgiveness of the repayment obligations based upon Vermillion's achievement of milestones related to the development, regulatory approval and commercialization of certain diagnostic tests. On October 7, 2009, Vermillion and Quest amended the Strategic Alliance Agreement to extend the term of the agreement to end on the earlier of (i) October 7, 2012 and (ii) the date on which Quest makes its third development election. On September 11, 2009, Vermillion announced its milestone achievement of clearing the OVA1 Test with the FDA and, effective after the emergence from Chapter 11 bankruptcy, reduced its principal obligations under the Amended Strategic Alliance Agreement to \$7,000,000. Should Vermillion fail to achieve the remaining milestones, Vermillion would be responsible for the repayment of the outstanding principal amount and any unpaid interest on the secured line of credit on or before October 7, 2012, which would materially adversely affect the Company's consolidated results of operations and financial condition.

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*If a competitor infringes on Vermillion's proprietary rights, the Company may lose any competitive advantage it may have as a result of diversion of our time, enforcement costs and the loss of the exclusivity of Vermillion's proprietary rights.*

The Company's success depends in part on our ability to maintain and enforce Vermillion's proprietary rights. The Company relies on a combination of patents, trademarks, copyrights and trade secrets to protect Vermillion's technology and brand. In addition to Vermillion's licensed Surfaced Enhanced Laser Desorption/Ionization ( SELDI ) technology, Vermillion has also submitted patent applications covering biomarkers that may have diagnostic or therapeutic utility. Vermillion's patent applications may not result in additional patents being issued.

If competitors engage in activities that infringe on Vermillion's proprietary rights, our focus will be diverted and the Company may incur significant costs in asserting Vermillion's rights. We may not be successful in asserting Vermillion's proprietary rights, which could result in Vermillion's patents being held invalid or a court holding that the competitor is not infringing, either of which would harm the Company's competitive position. We cannot be sure that competitors will not design around Vermillion's patented technology.

The Company also relies upon the skills, knowledge and experience of its technical personnel. To help protect Vermillion's rights, we require all employees and consultants to enter into confidentiality agreements that prohibit the disclosure of confidential information. These agreements may not provide adequate protection for the Company's trade secrets, knowledge or other proprietary information in the event of any unauthorized use or disclosure. If any trade secret, knowledge or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, it could have a material adverse effect on the Company's business, consolidated results of operations and financial condition.

*If others successfully assert their proprietary rights against the Company, the Company may be precluded from making and selling its products or the Company may be required to obtain licenses to use their technology.*

The Company's success depends on avoiding infringing on the proprietary technologies of others. If a third party were to assert claims that Vermillion is violating their patents, the Company might incur substantial costs defending itself in lawsuits against charges of patent infringement or other unlawful use of another's proprietary technology. Any such lawsuit may not be decided in the Company's favor, and if the Company is found liable, it may be subject to monetary damages or injunction against using the technology. Vermillion may also be required to obtain licenses under patents owned by third parties and such licenses may not be available to Vermillion on commercially reasonable terms, if at all.

*Current and future litigation against the Company could be costly and time consuming to defend.*

The Company is from time to time subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by the Company's clients in connection with commercial disputes, employment claims made by current or former employees, and claims brought by third parties alleging infringement on their intellectual property rights. In addition, the Company may bring claims against third parties for infringement on Vermillion's intellectual property rights. Litigation may result in substantial costs and may divert our attention and Company resources, which may seriously harm the Company's business, consolidated results of operations and financial condition.

An unfavorable judgment against the Company in any legal proceeding or claim could require the Company to pay monetary damages. In addition, an unfavorable judgment in which the counterparty is awarded equitable relief, such as an injunction, could have an adverse impact on Vermillion's licensing and sublicensing activities, which could harm the Company's business, consolidated results of operations and consolidated financial condition.

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On September 17, 2007, Molecular Analytical Systems ( MAS ) filed a lawsuit in the Superior Court of California for the County of Santa Clara naming Vermillion and Bio-Rad as defendants (the State Court lawsuit ). Under the State Court lawsuit, MAS seeks an unspecified amount of damages and alleges, among other things, that Vermillion is in breach of its license agreement with MAS relating to SELDI technology as a result of Vermillion's entry into a sublicense agreement with Bio-Rad. Vermillion filed its general denial and affirmative defense on April 1, 2008. The Company and Bio-Rad thereafter moved to compel arbitration of the State Court lawsuit, which motion was denied in the trial court. Thereafter, the Company appealed the denial of the motion to compel arbitration, which appeal had the effect of staying the State Court lawsuit, which stay was further extended in both the state trial and appellate courts when the Company filed on March 30, 2009, a Voluntary Petition for Relief under Chapter 11 in the United States Bankruptcy Court for the District of Delaware. MAS filed a proof of claim on June 30, 2009, in connection with the Company's Chapter 11 bankruptcy proceedings. The proof of claim mirrored the MAS lawsuit and asserted that the Company breached the Exclusive License Agreement by transferring certain technologies to Bio-Rad without obtaining MAS's consent. MAS listed the value of its claim as in excess of \$5,000,000. On December 28, 2009, the Company objected to MAS's Proof of Claim in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court confirmed the Company's plan of reorganization. Per the Court's order confirming the plan, the Company's bankruptcy case will be closed after a final, non-appealable judgment is entered on MAS's claims. After the plan was confirmed, MAS filed a motion with the Bankruptcy Court asking it to abstain from hearing its proof of claim and asked the Bankruptcy Court to grant relief from stay so that MAS could proceed with the State Court lawsuit in California. The Bankruptcy Court granted that motion on March 15, 2010. Thereafter, the California Court of Appeal has set oral argument on the Company's appeal of the trial court order denying the Company's motion to compel arbitration for June 17, 2010. Management cannot predict the ultimate outcome of this matter at this time.

*The Company's failure to meet its purchase commitments, pursuant to a manufacture and supply agreement with Bio-Rad, could adversely affect the Company's consolidated results of operations and financial condition.*

Vermillion was a party to a manufacture and supply agreement with Bio-Rad, dated November 13, 2006, whereby Vermillion agreed to purchase from Bio-Rad the ProteinChip Systems and ProteinChip Arrays necessary to support Vermillion's diagnostics efforts. Under the terms of the agreement, Vermillion was required to purchase a specified number of ProteinChip Systems and ProteinChip Arrays in each of the three years following the date of the agreement. Pursuant to a letter from the Company to Bio-Rad dated May 2, 2008, the Company exercised its right to terminate the agreement for convenience upon 180 days' written notice. Consequently, termination of the agreement became effective on October 29, 2008. As part of the Chapter 11 bankruptcy process, Bio-Rad made a claim for approximately \$1,000,000. Vermillion has accrued the contingency in accordance with ASC 450 Contingencies, within a general and administrative expense. If Vermillion is unable to renegotiate this claim, it would have an adverse effect on the Company's consolidated cash flows.

*If the Company or its suppliers fail to comply with FDA requirements, the Company may not be able to market its products and services and may be subject to stringent penalties; further improvements to the Company's or its suppliers' manufacturing operations may be required that would entail additional costs.*

The commercialization of Vermillion's products could be delayed, halted or prevented by applicable FDA regulations. If the FDA were to view any of the Company's actions as non-compliant, it could initiate enforcement actions, such as a warning letter and possible imposition of penalties. In addition, ASRs that Vermillion may provide will be subject to a number of FDA requirements, including compliance with the FDA's Quality System Regulations ( QSR ), which establish extensive requirements for quality assurance and control as well as manufacturing procedures. Failure to comply with these regulations could result in enforcement actions for Vermillion or its potential suppliers. Adverse FDA actions in any of these areas could significantly increase the Company's expenses and limit its revenue and profitability. Although the Company is ISO 9001:2000 certified with respect to its manufacturing processes used for the Company's previous ProteinChip products, Vermillion will need to undertake additional steps to maintain its operations in line with the FDA's QSR requirements. Some components of the OVA1 Test are manufactured by other companies and Vermillion is required to maintain supply agreements with these companies. If these agreements are not satisfactory to the FDA, Vermillion will have to renegotiate these agreements. Any failure to do so would have an adverse effect on Vermillion's ability to commercialize OVA1 Test. Vermillion's suppliers' manufacturing facilities will be subject to periodic regulatory inspections by the FDA and other federal and state regulatory agencies. If and when Vermillion begins commercializing and assembling its products itself, Vermillion's facilities will be subject to the same inspections. Vermillion or its suppliers may not satisfy such regulatory requirements, and any such failure to do so would have an adverse effect on Vermillion's diagnostics efforts.

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*Because the Company's business is highly dependent on key executives and employees, our inability to recruit and retain these people could hinder our business plans.*

The Company is highly dependent on its executive officers and certain key employees. The Company's executive officers and key employees are employed at will by the Company. As of December 31, 2009, the Company had 2 employees in connection with the Bankruptcy Filing and in an effort to conserve cash, which included 1 employee in research and development and 1 employee in general and administrative. Since Vermillion's emergence from bankruptcy under Chapter 11, the Company has reappointed its President and Chief Executive Officer, and Senior Vice President and Chief Scientific Officer; appointed a Vice President and Chief Financial Officer, and a Vice President of Finance and Chief Accounting Officer; and has engaged additional consultants; however, minimal staffing and any inability of the Company to engage new executive officers or key employees could impact operations or delay or curtail Vermillion's research, development and commercialization objectives. To continue Vermillion's research and product development efforts, the Company needs people skilled in areas such as bioinformatics, biochemistry and information services. Competition for qualified employees is intense.

*Vermillion's diagnostic efforts may cause it to have significant product liability exposure.*

The testing, manufacturing and marketing of medical diagnostic tests entails an inherent risk of product liability claims. Potential product liability claims may exceed the amount of the Company's insurance coverage or may be excluded from coverage under the terms of the policy. The Company's existing insurance will have to be increased in the future if the Company is successful at introducing diagnostic products and this will increase the Company's costs. In the event that the Company is held liable for a claim against which it is not indemnified or for damages exceeding the limits of the Company's insurance coverage, the Company may be required to make substantial payments. This may have an adverse effect on the Company's consolidated results of operations, financial condition and cash flows, and may increase the volatility of Vermillion's common stock price.

*Business interruptions could limit the Company's ability to operate its business.*

The Company's operations, as well as those of the collaborators on which the Company depends, are vulnerable to damage or interruption from fire; natural disasters, including earthquakes; computer viruses; human error; power shortages; telecommunication failures; international acts of terror; and similar events. The Company's primary facility is located in Fremont, California, where it also has laboratories. Although we have certain business continuity plans in place, we have not established a formal comprehensive disaster recovery plan, and the Company's back-up operations and business interruption insurance may not be adequate to compensate it for losses the Company may suffer. A significant business interruption could result in losses or damages incurred by the Company and require the Company to cease or curtail its operations.

*Legislative actions resulting in higher compliance costs are likely to adversely affect the Company's future consolidated results of operations, financial position and cash flows.*

Compliance with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, and new regulations enacted by the Securities and Exchange Commission (the "SEC"), are resulting in increased compliance costs. The Company, like all other public companies, is incurring expenses and diverting employees' time in an effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002. The Company is a smaller reporting company, and has completed the process of documenting its systems of internal control and has evaluated its systems of internal control. Beginning with the year ended December 31, 2007, the Company has been required to assess continuously its compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We expect to continue to devote the necessary resources, including internal and external resources, to support the Company's assessment. In the future, if we identify one or more material weaknesses, or the Company's independent registered public accounting firm is unable to attest that the Company's report is fairly stated or to express an opinion on the effectiveness of the Company's internal controls over financial reporting, this could result in a loss of investor confidence in the Company's financial reports, have an adverse effect on Vermillion's stock price and/or subject the Company to sanctions or investigation by regulatory authorities. Compliance with these evolving standards will result in increased general and administrative expenses and may cause a diversion of our time and attention from revenue-generating activities to compliance activities.

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*Changes in healthcare policy could increase our costs and impact sales of and reimbursement for our tests.*

Several proposals to reform the system of health care delivery in the U.S. are currently being considered by the federal and many state governments. Some of the reforms call for a government sponsored health plan. A number of states are also contemplating significant reform of their healthcare policies. A proposal for additional government-funded health care could subject expenditures for health care to governmental budget constraints and limits on spending. We cannot predict what healthcare policy reforms, if any, will be adopted or the effect that such adoption may have on our taxes, fees and other costs, which could impact our business, financial condition and results of operations. In addition, proposals to implement fees or taxes on medical product manufacturers and clinical laboratories have been considered. At this point, it is not clear whether health reform legislation will be enacted by Congress and whether it will include any new taxes or fees on clinical laboratories or medical device manufacturers or reductions in laboratory payments under Medicare. If such fees, taxes, or reductions in payments are adopted, these could have a negative impact on our business.

*The Company is subject to environmental laws and potential exposure to environmental liabilities.*

The Company is subject to various international, federal, state and local environmental laws and regulations that govern the Company's operations, including the handling and disposal of non-hazardous and hazardous wastes, the recycling and treatment of electrical and electronic equipment, and emissions and discharges into the environment. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities. The Company is also subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs to remediate hazardous substances or petroleum products on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties affected by such contamination. The presence of, or failure to remediate properly, such substances could adversely affect the value and the ability to transfer or encumber such property. Based on currently available information, although there can be no assurance, we believe that such costs and liabilities have not had and will not have a material adverse impact on the Company's consolidated results of operations.

***Risks Related to Owning Vermillion's Stock***

*The Company is not current in its reporting obligations with the SEC, and the Company's status as a public company could be revoked at any time.*

The Company is not current in its filing obligations with the SEC. While we are putting forth our best efforts to file all delinquent reports with the SEC, if we are unable to complete those filings before the SEC seeks to bring an administrative action against the Company, it is likely that the Company would cease being a public company. In that event, the liquidity of Vermillion's common stock would be severely diminished and our ability to continue the Company's operations could be materially affected.

*Vermillion's common stock is trading over-the-counter on the Pink Quote electronic quotation system, and thus the liquidity of Vermillion's common stock is low.*

On September 25, 2008, Vermillion's common stock was delisted from and suspended from trading on the NASDAQ Capital Market due to noncompliance with Marketplace Rule 4310(c)(3), which requires, among other things, that listed companies have stockholders' equity of at least \$2,500,000.

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Vermillion's common stock currently trades over-the-counter on Pink Quote, formerly known as Pink Sheets, electronic quotation system ( Pink Quote ) under the symbol VRML.PK . Quotes for stocks listed on Pink Quote are not listed in the financial sections of newspapers, and newspapers generally have very little coverage of stocks listed solely on the Pink Quote. Accordingly, prices for and coverage of securities traded solely on the Pink Quote may be difficult to obtain. In addition, stock traded solely on Pink Quote tend to have a limited number of market makers and a larger spread between the bid and ask prices than those listed on the New York Stock Exchange, the American Stock Exchange, the NASDAQ Stock Market or the OTC Bulletin Board. All of these factors may cause holders of Vermillion's common stock to be unable to resell their securities at or near their original offering price or at any price.

Because Vermillion's common stock is not listed on a principal national exchange, Vermillion is subject to Rule 15c-2 under the Securities and Exchange Act of 1934, as amended. This rule imposes additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors. Consequently, this rule may affect the ability of broker-dealers to sell Vermillion's common stock and affect the ability of holders to sell their shares of Vermillion's common stock in the secondary market. Moreover, investors may be less interested in purchasing low-priced securities because the brokerage commissions, as a percentage of the total transaction value, tend to be higher for such securities, and some investment funds, other than those investment funds which focus on small-capitalization companies or low-priced securities, will not invest in low-priced securities.

*Vermillion may not be able to be re-listed on NASDAQ Global Market, which could adversely affect trading and liquidity of the common stock.*

We intend to apply for the listing of Vermillion's common stock on the NASDAQ Global Market as soon as practicable, assuming that the Company satisfies the applicable listing criteria. However, there is no assurance that the NASDAQ Global Market or any other national stock exchange will approve Vermillion's common stock for listing as there is no assurance that the Company will satisfy the criteria for listing, or be approved for listing, on the NASDAQ Global Market or any other national stock exchange. Failure to list Vermillion's common stock on the NASDAQ Global Market could result in a less liquid market for existing and potential stockholders in which to trade shares of our common stock, which in turn could depress the trading price of our common stock, and adversely impact our ability to raise capital in the future.

*Vermillion's stock price has been, and may continue to be, highly volatile, and an investment in Vermillion's stock could suffer a decline in value.*

The trading price of Vermillion's common stock has been highly volatile and could continue to be subject to wide fluctuations in price in response to various factors, many of which are beyond the Company's control, including:

Vermillion's recent emergence from bankruptcy under Chapter 11, and the risks, uncertainties and difficulties related thereto;

failure to commercialize diagnostic tests and significantly increase revenue;

actual or anticipated period-to-period fluctuations in financial results;

failure to achieve, or changes in, financial estimates by securities analysts;

announcements or introductions of new products or services or technological innovations by the Company or its competitors;

publicity regarding actual or potential discoveries of biomarkers by others;

comments or opinions by securities analysts or major stockholders;

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conditions or trends in the pharmaceutical, biotechnology and life science industries;

announcements by the Company of significant acquisitions and divestitures, strategic partnerships, joint ventures or capital commitments;

developments regarding Vermillion's patents or other intellectual property or that of the Company's competitors;

litigation or threat of litigation;

additions or departures of key personnel;



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sales of Vermillion's common stock;

limited daily trading volume;

Vermillion's delisting from the NASDAQ Capital Market and subsequent quotation on the Pink Quotes; and

economic and other external factors, disasters or crises.

In addition, the stock market in general and the market for technology companies, in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, there has been significant volatility in the market prices of securities of life science companies. These broad market and industry factors may seriously harm the market price of Vermillion's common stock, regardless of the Company's operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against Vermillion could result in substantial costs, potential liabilities and the diversion of our attention and Company resources.

*Anti-takeover provisions in Vermillion's charter, bylaws and stockholder rights plan and under Delaware law could make a third party acquisition of the Company difficult.*

Vermillion's certificate of incorporation, bylaws and stockholder rights plan contain provisions that could make it more difficult for a third party to acquire the Company, even if doing so might be deemed beneficial by Vermillion's stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of Vermillion's common stock. Vermillion is also subject to certain provisions of Delaware law that could delay, deter or prevent a change in control of the Company. The rights issued pursuant to Vermillion's stockholder rights plan will become exercisable the tenth day after a person or group announces acquisition of 15% or more of Vermillion's common stock or announces commencement of a tender or exchange offer the consummation of which would result in ownership by the person or group of 15% or more of Vermillion's common stock. If the rights become exercisable, the holders of the rights (other than the person acquiring 15% or more of Vermillion's common stock) will be entitled to acquire, in exchange for the rights' exercise price, shares of Vermillion's common stock or shares of any company in which the Company is merged, with a value equal to twice the rights' exercise price.

*Because we do not intend to pay dividends, Vermillion's stockholders will benefit from an investment in Vermillion's common stock only if it appreciates in value.*

We have never declared or paid any cash dividends on Vermillion's common stock. We currently intend to retain the Company's future earnings, if any, to finance the expansion of the Company's business and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in Vermillion's common stock will depend entirely upon any future appreciation. There is no guarantee that Vermillion's common stock will appreciate in value or even maintain the price at which its investors purchased their shares.

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*The Company may need to sell additional shares of Vermillion's common stock or other securities in the future to meet the Company's capital requirements. In such circumstances, or upon conversion of Vermillion's senior convertible notes and exercises of currently outstanding options and warrants, the ownership interests of Vermillion's stockholders prior to such sale, conversion or exercise could be substantially diluted. The possibility of dilution posed by shares available for future sale could reduce the market price of Vermillion's common stock and could make it more difficult for the Company to raise funds through equity offerings in the future.*

As of December 31, 2009, Vermillion had 7,918,705 shares of its common stock outstanding and 7,923,132 shares of its common stock reserved for future issuance to employees, directors and consultants pursuant to the Company's employee stock plans, which excludes 678,301 shares of Vermillion's common stock that were subject to outstanding options. In addition, as of December 31, 2009, warrants to purchase 505,647 shares of Vermillion's common stock were outstanding at exercise prices ranging from \$9.25 to \$25.00 per share, with a weighted average exercise price of \$16.18 per share. Also as of December 31, 2009, there were 250,000 shares of Vermillion's common stock reserved for issuance upon conversion of the 7.00% Notes. On December 11, 2008, the trustee of the Indenture and the holders of the \$2,500,000 outstanding principal balance related to the 4.50% Notes and Vermillion agreed to extend the maturity date of the 4.50% Notes to September 1, 2009, and to extend the option of the holders to convert the 4.50% Notes into Vermillion's common stock on or before August 31, 2009, with an adjusted conversion rate of 20 shares per \$1,000 principal amount of the 4.50% Notes, which is equal to a conversion price of \$50.00 per share. The adjusted conversion rate increased the shares of Vermillion's common stock reserved for issuance upon conversion of the 4.50% notes from 27,208 shares to 50,000 shares.

From November 24, 2009 to January 22, 2010, Vermillion exchanged a total of 15,794 shares of its common stock for \$305,000 in principal and \$18,000 in unpaid interest related to the 4.50% Notes. On January 22, 2010, Vermillion paid the remaining unpaid principal balance of \$2,195,000 and interest of \$140,000 related to the 4.50% Notes. None of the 4.50% Notes are outstanding.

From November 30, 2009 through January 22, 2010, Vermillion exchanged 428,906 shares of its common stock for \$7,100,000 in principal and unpaid interest of \$732,000 related to the 7.00% Notes. From October 21, 2009 through November 19, 2009, \$4,400,000 in principal related to the 7.00% Notes was converted into 220,000 shares of Vermillion's common stock. On January 22, 2010, Vermillion paid \$362,000 of interest related to the 7.00% Notes. \$5,000,000 in principal of the 7.00% Notes remain outstanding.

From October 5, 2009, through April 12, 2010, Vermillion issued 990 shares of its common stock for \$12,000 from the cash exercise of its warrants dated August 3, 2006, with an exercise price of \$12.60 per share (the August 3 Warrants), and 3,496 shares of its common stock from the cashless exercise of 8,625 underlying common stock shares of its August 3 Warrants. From October 5, 2009, through April 12, 2010, Vermillion issued 990 shares of its common stock for \$12,000 from the cash exercise of its warrants dated November 15, 2006, with an exercise price of \$12.60 per share (the November 15 Warrants), and 3,486 shares of its common stock from the cashless exercise of 8,625 underlying common stock shares of its November 15 Warrants. From September 29, 2009, through March 4, 2010, Vermillion issued 392,120 shares of its common stock for \$3,627,000 from the cash exercise of its warrants dated August 29, 2007, with an exercise price of \$9.25 per share (the 2007 Warrants), and 521,213 shares of its common stock from the cashless exercise of 1,435,678 underlying common stock shares of its 2007 Warrants.

The exercise or conversion of all or a portion of these securities would dilute the ownership interests of Vermillion's stockholders. Furthermore, future sales of substantial amounts of Vermillion's common stock in the public market, or the perception that such sales are likely to occur, could affect prevailing trading prices of Vermillion's common stock and the value of the notes.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On January 7, 2010, Vermillion closed a private placement transaction with a group of investors. Vermillion received \$43,050,000 in gross proceeds from the sale of 2,327,869 shares of its common stock at a price of \$18.4932 per share. The shares of Vermillion's common stock issued in connection with the private placement will be exempted from the registration requirement pursuant to Regulation D of the Securities Act. Accordingly, these restricted shares are subject to the resale limitations of Rule 144 under the Securities Act, as a transaction not involving a public offering because, among other things, the investors were accredited investors at the time of the transaction and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

From November 30, 2009, through January 22, 2010, Vermillion exchanged 428,906 shares of its common stock for \$7,100,000 in principal and unpaid interest of \$732,000 related to the convertible senior notes due September 1, 2011 (the 7.00% Notes). From October 21, 2009 through November 19, 2009, \$4,400,000 in principal related to the 7.00% Notes was converted into 220,000 shares of Vermillion's common stock. The offer and issuance of the securities was exempt from registration under Section 3(a)(9) of the Securities Act.

From November 24, 2009 to January 22, 2010, Vermillion exchanged a total of 15,794 shares of its common stock for \$305,000 in principal and \$18,000 in unpaid interest related to the convertible senior notes due September 1, 2009 (the 4.50% Notes). The offer and issuance of the securities was exempt from registration under Section 3(a)(9) of the Securities Act.

From October 5, 2009, through April 12, 2010, Vermillion issued 990 shares of its common stock for \$12,000 from the cash exercise of its common stock warrants dated August 3, 2006, with an exercise price of \$12.60 per share (the August 3 Warrants), and 3,496 shares of its common stock from the cashless exercise of 8,625 underlying common stock shares of its August 3 Warrants. From October 5, 2009, through April 12, 2010, Vermillion issued 990 shares of its common stock for \$12,000 from the cash exercise of its common stock warrants dated November 15, 2006, with an exercise price of \$12.60 per share (the November 15 Warrants), and 3,486 shares of its common stock from the cashless exercise of 8,625 underlying common stock shares of its November 15 Warrants. From September 29, 2009, through March 4, 2010, Vermillion issued 392,120 shares of its common stock for \$3,627,000 from the cash exercise of its common stock warrants dated August 29, 2007, with an exercise price of \$9.25 per share (the 2007 Warrants), and 521,213 shares of its common stock from the cashless exercise of 1,435,678 underlying common stock shares of its 2007 Warrants. The offer and issuance of securities is subject to the resale limitations of Rule 144 under the Securities Act.

On August 29, 2007, Vermillion completed a private placement sale of 2,451,309 shares of its common stock and a warrant to purchase up to an additional 1,961,047 shares of its common stock with an exercise price of \$9.25 per share and expiration date of August 29, 2012, to a group of existing and new investors for \$20,591,000 in gross proceeds. The net proceeds of the transaction will be used for general working capital needs. In connection with Quest Diagnostics Incorporated's (Quest) participation in this transaction, Vermillion amended a warrant to purchase an additional 220,000 shares of its common stock that was originally issued to Quest on July 22, 2005. Pursuant to the terms of the amendment, the warrant to purchase 220,000 shares of Vermillion's common stock was reduced from \$35.00 per share to \$25.00 per share and the expiration date was extended from July 22, 2010, to July 22, 2011. The sale, offer and issuance of the securities was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act, as a transaction not involving a public offering because, among other things, the investors were accredited investors at the time of the transaction and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

As partial consideration for services as placement agent in connection with the August 29, 2007, private placement sale, Vermillion issued a warrant to purchase up to 92,100 shares of Vermillion's common stock with an exercise price of \$9.25 per share and expiration date of August 29, 2012, to Oppenheimer & Co. Inc. (Oppenheimer). Vermillion's Board of Directors determined the value of such common stock warrants to be equal to the price paid for the common stock warrants by the investors in the offering, or \$1.25 per warrant share, for an aggregate value of \$115,000. The sale, offer and issuance of the securities was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act, as a transaction not involving a public offering, because among other things, Oppenheimer was an accredited investor at the time of the transaction and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

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On November 15, 2006, Vermillion completed the sale of \$16,500,000 in aggregate principal of the 7.00% convertible senior notes due September 1, 2011 (the 7.00% Notes ). The 7.00% Notes were sold pursuant to separate exchange and redemption agreements between Vermillion and certain holders of Vermillion s existing 4.50% convertible senior notes due September 1, 2008 (the 4.50% Notes ). The holders agreed to exchange and redeem \$27,500,000 in aggregate principal of the 4.50% Notes for \$16,500,000 in aggregate principal of the 7.00% Notes and \$11,000,000 in cash, plus accrued and unpaid interest on the 4.50% Notes of \$254,000. Offering costs of \$104,000 and fees of \$514,500 were paid on behalf of the debt holders and recorded as a debt discount to the 7.00% Notes. The sale, offer and issuance of the securities was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act, as a transaction not involving a public offering, because among other things, the investors were accredited investors at the time of the transaction and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

On August 3, 2006 and November 15, 2006, Vermillion issued warrants to purchase an aggregate of 20,000 shares of its common stock with an exercise price of \$12.60 per share to Oppenheimer in partial consideration for its services as the placement agent for the offering of the 7.00% Notes. Fees paid on behalf of the debt holders included the fair value of the two common stock warrants and were recorded as a discount on the 7.00% Notes. The two common stock warrants were valued at \$140,000 based on the fair value as determined by the Black-Scholes method of valuation using a risk free interest rate of 4.75%, 5 year contractual life, and 88.00% volatility rate. The sale, offer and issuance of the securities was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act, as a transaction not involving a public offering, because among other things, Oppenheimer was an accredited investor at the time of the transaction and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

In connection with the sale of assets and liabilities of its protein research products and collaborative services business to Bio-Rad Laboratories, Incorporated ( Bio-Rad ) on November 13, 2006, Vermillion sold to Bio-Rad 308,642 shares of Vermillion s common stock for an aggregate purchase price of \$3,000,000. The sale, offer and issuance of the securities was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act, as a transaction not involving a public offering, because among other things, Bio-Rad was an accredited investor at the time of the transaction and appropriate legends were affixed to the instruments representing such securities issued in such transaction.

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**Item 3. Defaults Upon Senior Securities**

As a result of negotiations between the 4.50% convertible senior notes due September 1, 2008 (the 4.50% Notes), and Vermillion, the outstanding principal balance of \$2,500,000 related to the 4.50% Notes, which matured on September 1, 2008, was not redeemed by Vermillion. Interest of \$56,000 related to the 4.50% Notes was paid on the maturity date, September 1, 2008. Pursuant to the 4.50% Notes indenture agreement, late payment may result in payment of interest on the outstanding principal balance and overdue interest. Subsequently on December 11, 2008, the holders of the \$2,500,000 outstanding principal balance related to the 4.50% Notes have agreed to extend the maturity date of the 4.50% Notes to September 1, 2009, and to waive any past default by Vermillion of its obligation to make payment on the principal of and interest on the 4.50% Notes. Vermillion has agreed to extend each holder's rights to require Vermillion to repurchase the 4.50% Notes at 105.00% of such holder's outstanding principal amount upon a change in control, as defined in the indenture governing the 4.50% Notes, and to convert the 4.50% Notes into common stock accordingly. In addition, the holders of the 4.50% Notes have agreed to permit the full redemption of the outstanding principal related to the 4.50% Notes at a redemption price of 100.00% on or before August 31, 2009, and Vermillion has agreed to adjust the conversion rate for the 4.50% Notes to 20 shares per \$1,000 principal amount of the 4.50% Notes, which is equal to a conversion price of \$50.00 per share.

During the Company's Bankruptcy Proceeding, the Company refrained from making interest and principal payments on the 4.50% Notes, the 7.00% Notes, and the secured line of credit with Quest. The Company was in default on the terms of these securities. Such defaults were cured upon the Company's emergence from bankruptcy.

**Item 4. Removed and Reserved**

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

The following exhibits are furnished with this report as indicated below:

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.0 Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Vermillion, Inc.**

Date: May 20, 2010

/s/ GAIL S. PAGE  
Gail S. Page

**Executive Chairperson, President and Chief Executive Officer**

**(Principal Executive Officer)**

Date: May 20, 2010

/s/ JOHN H. TRAN  
John H. Tran

**Vice President of Finance and Chief Accounting Officer**

**(Principal Financial Officer)**